



Towards an enhanced credit rating agencies supervision in the European Union. July 2010.

The European Commission has put forward, on 2 June 2010, a proposal for a Regulation of the European Parliament and of the Council on amending Regulation 1060/2009, on credit rating agencies. This proposal (also was presented at the G-20 Summit in Toronto on 26-27 2010) will now pass to the European Council of Ministers and the European Parliament for consideration. If adopted, the new rules would be expected to come into force during 2011.

The amendments contained in the proposal - which is accompanied by an impact assessment prepared by the Commission staff- have two main objectives:

1.- Centralize the credit rating agencies at European level.

As rating services are not linked to a particular territory and can be used by financial institutions all around Europe, a more centralised system for supervision is proposed. The new ESMA (European Securities Market Authority) will improve and streamline the procedure for registration and will proportionate a more homogeneous supervisory framework; this last means that ESMA would be entrusted with exclusive supervision powers over credit rating agencies registered in the UE, that would include the European subsidiaries of well-known agencies such as FITCH, Moody's and Standards & Poor's.

The ESMA, to monitor that the agencies comply on an ongoing basis with the regulation, will be endowed with a set of supervisory powers: require all necessary information from agencies or persons involved in rating activities; examine any records, data, procedures or any other relevant material, including records of telephone and data traffic; take copies of the previous documentation; ask for oral explanations, interview or summon and hear a person; and carry out on-site inspections at the premises of the agencies. Also, the ESMA could take appropriate supervisory measures if it has discovered a serious breach of the Regulation and may request the Commission to impose a fine when the agency has intentionally or negligently committed the breach. The competent national authorities supervisory powers will be related to the use of credit ratings by the rated entities. The ESMA and the national authorities will cooperate and Exchange information; Also it is foreseen the possibility for ESMA to delegate Powers back to national authorities when this makes sense although the responsibility will remain within ESMA.

2.- Strengthen the information transparency and increase competition among credit rating agencies.

The issuers of structure finance instruments that have requested a rate from an agency they have appointed (issuer-pays model), will provide access to information not only to the agency they appoint but to all other interested agencies, provided those last satisfy certain organisational and confidentiality conditions, so that the issuance of unsolicited ratings is promoted. The proposal would help to avoid possible conflicts of interest arising under the issuer-pays model, would enhance transparency and quality of ratings and would ease the investors use of more than one rating per financial instrument.

If you are interested in the document you can click on the following link:

http://ec.europa.eu/internal_market/securities/docs/agencies/100602_proposal_en.pdf