EFMLG Draft Statement

with regard to the use of Credit Rating Agencies and external credit ratings in the EU

In the context of the review of the Basle Accord on capital framework, the EFMLG notes that the proposed "revised standardised approach" will imply an increased use of external credit ratings.

The recourse to external credit ratings should be seen both as a means of achieving a risk-sensitive calculation of capital charges which financial institutions are required to hold in order to comply with prudential supervision requirements, and as a means of fostering the integration of EU financial markets, by encouraging cross-border provision of services.

In order to ensure a sufficiently high quality of external credit ratings, as well as a level playing field and competitive equality within the EU, it is important to lay down a clear and transparent legal framework, both at the international and Community level. The establishment of such a framework should not however erect artificial barriers to entry on this market and should preserve the diversity and pluralism of the providers of credit ratings in the EU, as well as the freedom of choice for credit institutions and other users.

The EFMLG therefore strongly encourages the European Commission to consider taking legislative action, as the case may be, in particular with respect to the licensing criteria for rating agencies and the process of recognition of these institutions by the competent authorities.

High quality credit ratings are the credentials of the banks as suppliers of services. [They are also of particular importance for the implementation of monetary policy]. It is therefore important that the criteria be of a high standard. The EFMLG recognises that credibility and transparency are a prerequisite to ensure high credit rating quality. It is also proposed to
focus on the independence of credit rating agencies. Considerations regarding the overall professionalism and background (including output and operational back-up) of such agencies need to be taken into account. Comparability of rating scales seems also indispensable.

Furthermore, as regards the recognition process of these institutions, the use of credit rating agencies within the EU will be encouraged if mutual recognition arrangements are put in place. This may also require further cooperation between regulatory authorities in this field; the EFMLG welcomes the European Commission’s proposals to this effect.

The issue of the eventual liability of credit rating agencies may need to be further examined.

**Further action to be taken by the EFMLG**

[to be completed following discussions in the meeting]