Credit Rating Agencies
for a regulated profession

(June 2012)

Investigative committee on the operation, methodology and credibility of rating agencies

Frédérique ESPAGNAC (Chairman) and Aymeri de MONTESQUIOU (Rapporteur)

This summary is intended to facilitate the reading and use of the report on the rating agencies. Only the report expresses the opinion of the committee.

SÉNAT

Directorate of Legislation and Control

Directorate of Communication

CHAIRMAN OF THE COMMITTEE

Frédérique ESPAGNAC
Senator of Pyrénées-Atlantiques (Aquitaine)

Vice-Chairman of the finance committee
Vice-Chairman of the socialist group and affiliates

RAPPORTEUR OF THE COMMITTEE

Aymeri de MONTESQUIOU
Senator of Gers (Midi-Pyrénées)

Vice-Chairman of the finance committee
Member of the European affairs committee
Member of the prospective senatorial delegation
Member of the centrist group

Contact :

01 42 34 33 21

Financial rating agencies assess **credit risk, i.e. the risk of default by an issuer of financial debt.** Standard and Poor's and Moody's together have 80 % of the world market share and Fitch 15 %.

Table No. 1: geographical breakdown of the turnover of the three principal rating agencies in 2010

	Standard & Poor's	Moody's	Fitch
United States	70.8%	53.6%	37.9 %
Europe	16.0%	30.9%	33.1 %
Rest of the world	13.2%	15.5%	29.0 %

Source: impact study annexed to the draft amendment to the European regulation on rating agencies

Rating agencies are paid by entities (companies or public authorities) that seek financing on the capital markets. This payment model is referred to as an "issuer-pays" model. Their ratings are used by investors to clarify and guide their choices.

Table No. 2 : the entities rated in France

	2003	2004	2005	2006	2007	2008	2009	2010
Total number	387	336	353	366	349	n.d	349	318
banking sector	53 %	49 %	47 %	46 %	47 %	n.d	51 %	50 %
industry	25 %	27 %	28 %	31 %	26 %	n.d	26 %	28 %
insurance	9 %	9 %	9 %	8 %	11 %	n.d	9 %	13 %
Public sector	13 %	15 %	16 %	15 %	17 %	n.d	14 %	9 %

Source: reports of the Financial Markets Authority

Table No. 3 : historical breakdown of ratings of French issuers

	2003	2005	2006	2007	2009	2010
AAA and AA	44 %	38 %	39,5 %	52 %	33 %	37 %
A	40 %	41 %	38,5 %	22 %	43 %	37 %
BBB	10 %	14 %	13 %	15 %	16 %	19 %
Speculative category	6 %	7 %	9 %	11 %	8 %	7 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

Source: Financial Markets Authority

THE RATING AGENCIES HAVE BECOME A FORCE TO BE RECKONED WITH, THERE BEING NO GOING BACK IN THE SHORT TERM

The current opinion about the place and role of rating agencies is paradoxical. The market regulators, the public authorities, the agencies themselves are calling on the financial system to “detoxify” itself from the ratings. But there is a major risk that the capital markets will remain dependent on a durable basis.

A) The preferential financing of the economy and of States by the globalized bond markets has created a key position for the rating agencies

The more the financing by the bond markets increases, the more these markets are globalized, the more the influence of the rating agencies is reinforced.

“The less importance the banks have, the more recourse to rating agencies increases”.

Marc Ladreit de Lacharrière,
President of FIMALAC and leading shareholder in Fitch.

- In Europe, the financing of the economy, is little by little changing from a model of financing by the banks to that of financing by the markets, following what happened in the United States. We are witnessing a gradual change of model – by force or by choice. In the euro zone, the outstanding debts of companies have **almost tripled since 1998,** while the outstanding debts of their bank loans have **less than doubled** over the same period. Despite the scandals, the securitization market, whose products exist only by means of rating, remains active.

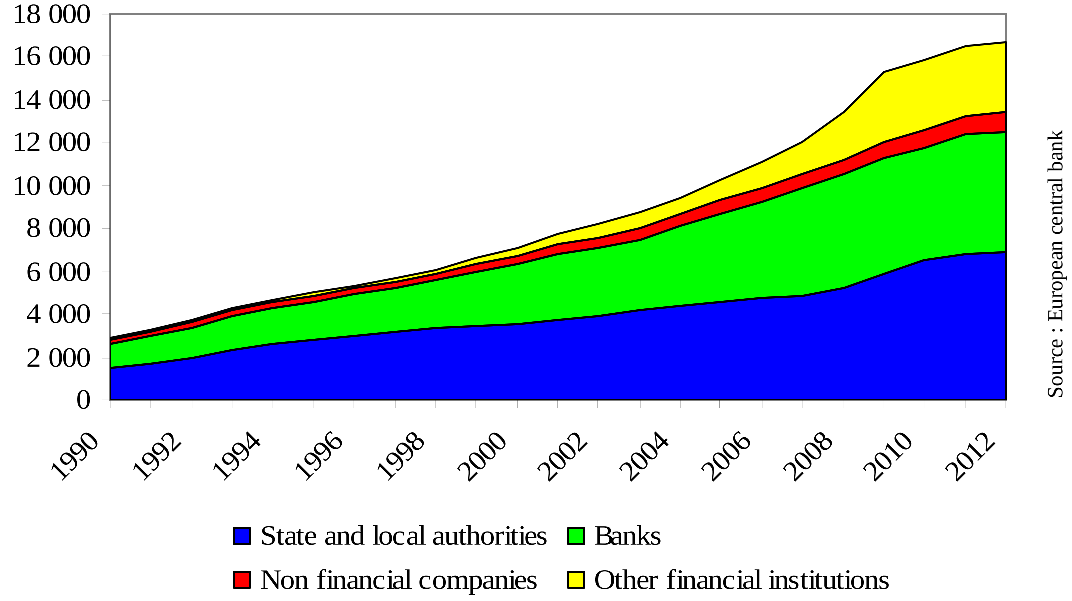
“It is something of a paradox that the crisis, caused by disintermediation in the United States, ended up importing this phenomenon into Europe”.

Bertrand Badré, finance director of Société générale

- Sovereign debt is issued solely in the markets. The search for other sources of financing via direct loans from French savers is currently prevented by a yield on State bonds lower, including tax, than that provided by a savings account or life insurance.

- As local authorities are facing a “credit crunch” risk, local authority grouped bonds projects or local authority financing agencies projects are back in the debate.

Graph No. 4: progression of the bond market in the euro zone since 1990



- The bond market is globalized. **Almost one-third of global bond debt is issued to non-resident investors,** and they probably hold a sizeable share of so-called domestic issues. Despite a slight fall, **65.4 % of French State bonds are held by non-residents, half of whom are outside the euro zone.**

- Financial globalization reinforces rating as a harmonized standard for assessing risk, extremely imperfect but global.

It is a standard understood by stakeholders in a capital market that brings together more than 10 000 issuers, a million bonds, particularly complex structured products with thousands of investors spread throughout the world.

- In France, **less than 10 % of bond issues are not rated.** Only three companies in the CAC 40 are not rated. Despite its limited added value, "unsolicited" rating of the State is carried out with the active participation of its services.

Tableau No. 5: rating of French companies listed in the CAC 40

	Standard & Poor's	Moody's	Fitch	Double rating	Triple rating
Number of companies rated	37	28	23	9	21
% compared to the total number of companies rated	100 %	76 %	62 %	24 %	57 %

Source: calculations of the committee made on the basis of public information on the date the report was adopted

B) Rating is a necessary requirement imposed by the public authorities and investors with no credible alternative in the short term

An aggravating factor, in reaction to the various crises of capitalism since 1929, is that the United States, then the European States, and now the international community, via the G20 and the Basel Committee, relied on ratings for assessment about the solidity of bank and insurance company assets and the assessment of the risks taken. **In a manner that is questionable in hindsight, public authorities turned the rating agencies into quasi-regulators.**

– In 1999 in United States **regulation for bond markets contained more than 1 000 references to ratings and banking regulation almost 400.** The central banks place huge reliance on ratings to assess the quality of the assets given to them as guarantees. At the end of 2011, **75 % of the 2 017 billion euro in guarantees lodged with the European Central Bank were accepted on the basis of a rating issued by an agency.**

– This is the particular context in which ever more ritualistic calls are being made for detoxification from ratings.

– Never, in view of the weakened solidity of banks and in the current crisis affecting the euro zone, has the need for precise risk assessment been so strong. The alternative solutions proposed to ratings – seldom actually put into effect - are even less effective: calls for the development of internal risk assessment in the banks, insurance and fund management, requirement to consult several analyses for the purpose of taking investment decisions.

-The "detoxification" initiatives taken in the United States are **purely verbal,** recourse to the rating agencies being ingrained in its "investment culture", just as it is in the European one.

If there is little confidence in the rating agencies to assess risks, there is no greater confidence in the internal models developed by the banks. The multiplication of internal risk assessment models also calls for considerable strengthening of the resources and diligence of the prudential control authorities, and harmonization of their practices.

In reality, "detoxification" also has two other forms. The first is that of enlarging the list of external bodies authorized to act as quasi-regulators. It is necessary to open the area of regulation which is currently too closed and dominated by the three major agencies. The second is that of suppressing the mechanical effects of rating movements over the decisions of regulators or investors. This involves giving central banks, regulators or certain investors a free hand in this area which they have relinquished.

THE QUALITY OF RATINGS IS NOT GUARANTEED BY MARKET MECHANISMS. THE AGENCIES MUST BE MADE TO BEAR LEGAL AND ADMINISTRATIVE LIABILITY

As long as the detoxification efforts linger, the ratings remain much more than a mere opinion, as indicated by the impact of the errors committed, which affects the future of an individual company or the future of economies. In this context, **the quality of the rating is essential.** It is on this point that political efforts must be concentrated. Because ratings are not simple "opinions" **rating activity must become a regulated profession.**

Standard and Poor's, Moody's and Fitch have been given the role of a public service in a haphazard manner, without specifications, without control and without requirements for results.

A) Rating methods, an issue that has not yet been fully addressed

- Despite the errors which have occurred, the question of the methodology used has for a long time been avoided both by legislators and supervisors. It has been raised, with a great deal of caution, only very recently. Numerous publications are being issued by the three principal rating agencies. However, the European Commission's aim of clear, easily understood explanations is far from being achieved. Questioned about the qualities associated with the image of rating agencies, 58 % of investors consider that transparency of methods is a criterion that they fail to meet. The documents published are too complex to be used by a majority of investors (56 %).

- Gradually, the European regulation calls on the European Securities and Markets Authority to take an interest in agency methods. There is a move towards **regulating agency methods.** It should in fact be remembered that 400 internal risk assessment models developed by the banks have been validated by the national and European authorities. It is difficult to see how external risk assessment carried out by the rating agencies could in the long run escape this necessary control of methods.

B) The uncertainties surrounding the human resources mobilized by the agencies

Human resource management, an essential aspect determining the quality of ratings, remained a shady area **lacking sufficient control**, at the time agencies were registered, by the European Securities and Markets Authority. At the time of registration of Standard and Poor's, Moody's and Fitch in Europe, no priority was given to examining the number of dossiers per analyst, qualifications, ongoing training and the seniority of analysts.

- The figures produced by the agencies enabled them to present to the authorities satisfactory ratios, with an average, depending on the type of ratings, between 8.4 dossiers per analyst and 11.4 dossiers per analyst for Standard and Poor's, excluding structured products, and an average between 10.9 dossiers per analyst and 15.2 dossiers per analyst for Moody's.

However, the **data produced do not make it possible to measure satisfactorily the workload of analysts,** there being no definition of what a "dossier" constitutes for them (sometimes it is one issuer sometimes one issue) and no weighting depending on the complexity of the dossiers.

The figures must be subject to rigorous definition, harmonized and controlled by the European Securities and Markets Authority.

- The ongoing training policy of the agencies is at their entire discretion, with no guarantee over the appropriations of the qualifications of analysts. According to a 2009 document issued by Fitch, **only 14 % of analysts at Fitch world level possessed the external qualification of "Chartered Financial Analyst".**

A system of professional certification approved by an independent body recognized by the European authorities should be included in the regulatory requirements for agencies.

- Also in relation to human resources, 62 % of analysts employed on the rating of companies had less than five years seniority in 2009-2010. This figures increases to 71 % for Fitch. For sovereign debt, 78 % of Moody's analysts had less than 5 years seniority, 30 % of whom had less than two years seniority. As regards the rating of structured products, the percentage of analysts with less than five years seniority rises to 70 % on average. In Fitch, 81 % of analysts of structured products have less than five years seniority.

Table No. 6: seniority of analysts in Standard and Poor's, Moody's and Fitch in Europe (2009-2010)

Standard & Poor's in Europe	**< 2 years**	**2 to 5 years**	**> 5 years**
Companies and Financial Institutions	13 %	35 %	51 %
Other	10 %	14 %	76 %
Sovereigns and similar	11 %	38 %	52 %
Structured products	11 %	53 %	36 %
Total	**12 %**	**39 %**	**49 %**
Moody's in Europe	**< 2 years**	**2 to 5 years**	**> 5 years**
Companies	16 %	48 %	35 %
Financial Institutions	22 %	44 %	34 %
Sovereigns and similar	30 %	48 %	22 %
Structured products	13 %	52 %	36 %
Total	**17 %**	**49 %**	**49 %**
Fitch in Europe	**< 2 years**	**2 to 5 years**	**> 5 years**
Companies	17 %	54 %	29 %
Financial Institutions	17 %	54 %	29 %
Structured products	7 %	74 %	19 %
Total	**13 %**	**59 %**	**28 %**

Source: data presented by the three major agencies in support of their applications for registration

C) The market, no guarantee for quality

Market mechanisms do not work to ensure the quality of ratings.

> *"Profitability has become the sole priority of the rating agencies : the growing number of instruments and companies to be rated per analyst, the computerized use of huge tables of universal data filled in by issuers in a clearly heterogeneous manner, and the multiplication of errors of calculation or mistaken interpretations as a result have led to a substantial decrease in the quality of analysis"*

Written contribution of the French Banking Federation to the Senate

Companies and public authorities are currently in a weak position compared to the dominant position of the agencies. This can be seen both in the difficulty of having a balanced dialogue with a view to understanding the rating procedure employed by agencies and the fees charged.

– French companies complain of unjustified rating distortions by comparison to their competitors, namely American, with a favorable bias, in particular, towards the US GAAP accounting standards. **Rating distortions have been confirmed.** EADS had to appeal to a rating council in order to reinstate its rating, unfairly fixed at BBB+ while Boeing received A+. The accounting margin presented by Boeing was based on accounts in accordance with American standards (US GAAP). That of EADS was based on accounts compliant with international standards (IFRS). After reprocessing, EADS was able to demonstrate that the appropriate rating was A, and not BBB+.

– On 27 February 2012, twelve of the largest German companies sent a letter to Standard and Poor's in which they referred to the increase in fees charged by the agency, amounting to double compared to previous years. Transparency is needed to improve the relationship between issuers and agencies and provide issuers with a right of reply concerning their rating.

D) An economic model source of conflicts of interest

Conflicts of interest in the area of rating, linked to the issuer-payer model and collusion between banks and agencies in relation to structured products, have at last been taken into account. They are now better monitored. However, for structured products it is the model itself that must change. A move to an investor-pays model in this area must be initiated.

- Specific conflicts of interest newly brought to light are still poorly supervised.

- Rating agencies also supply auxiliary services, such as "pre-rating" which involves informing a company on the impact of an operation that it wishes to carry out (a merger-acquisition for example) could have on its rating ; "pre-rating" is similar, although the agencies dispute it, to consultancy services, which they are prohibited from providing.

- The relationship of agencies with their shareholders is also a source of confused interest; some of the shareholders may also be investors in rated companies, risking interference with the rating procedure.

E) Unobtainable civil liability

It is difficult to establish the liability of rating agencies on a legal footing. Civil liability actions brought against rating agencies, steadily on the increase, have not, at least for the moment, resulted in any significant judgments. At present, Moody's requires French issuers to enter into contracts governed by English law in an attempt at "**legal outsourcing**".

– The competent jurisdiction should be that of the country in which the investor who incurred the loss has his habitual residence. As soon as an investor submits evidence leading to the presumption that an agency has committed an error, it is up to the agency to provide proof to the contrary. Clauses limiting the amount of damages and interest should be prohibited, as exemption clauses.

– This naturally implies that rating agencies are able to face possible litigation. The share capital in France of certain agencies (EUR 80 000 for Fitch; EUR 150 000 for Moody's) means that they are not able to do so. A regulatory amount of capital must be established by the European authorities, as well as requirement to take out "professional civil liability" insurance.

F) Nascent administrative control

Civil liability does not exclude administrative liability, i.e. a registration and control procedure under the responsibility of the European Securities and Markets Authority.

– The activity of rating agencies has become a partially regulated activity only very recently, since 2007 in the United States, since 2009 in Europe.

– Compared to the lack of control noted up to 2011, the registration procedure constitutes a progress. The procedure whereby agencies are able to obtain registration is long and involves considerable paperwork (more than 30 000 pages submitted by Standard and Poor's, Moody's and Fitch in 2010 and 2011).

– These agencies have been requested to make improvements. For example, Fitch was obliged, in order to obtain its licence, to appoint at the last minute an independent director, with a good knowledge of securitization, duly in compliance with the criteria of the European regulation. Certain refusals have also been noted: refusal (with regard to exchanges with the regulators), for example, by Standard and Poor's, for reasons of cost, to record telephone conversations between analysts and issuers, or for a compliance officer to be present during their meetings.

– On the other hand, examination of the information linked to human resources has been partially overlooked, in spite of the concerns expressed in several reports and testimonies on the inadequacy of resources
– in terms of quality and quantity – devoted to rating. In this area, the registration procedure has been **a waste of time**.

– The ESMA must make resolute use of its control powers, as it started to do at the end of 2011. The procedures are slow and the disincentive effect of sanctions is weak.

– The cost of regulation for the agencies while not marginal remains moderate: 25 million dollars per annum at world level for Fitch, i.e. 16 % of its operating result. Standard and Poor's refers to the figure of 80 million dollars. For Standard and Poor's and Moody's, the new regulatory requirements amounted to between 10 and 15 million dollars in 2011.

A NEW RELIABLE EUROPEAN PLAYER IS NECESSARY FOR BETTER ECONOMIC AND FINANCIAL INFORMATION

A) Substantial guaranteed incomes

– The duopoly constituted at world level by Standard and Poor's and Moody's, together with Fitch, is the source of a substantial guaranteed income. It enables these companies to impose on issuers extremely high fees compared to the hours of work put in by the analysts for each rating. **The national and European competition authorities must ensure that the three major agencies do not abuse their dominant position.** Their operating profit is between 39.5 % and 45 %. This level of profit is exceptional even compared to other companies operating in highly profitable sectors.

– Entry barriers into the ratings market are difficult to overcome. One of them is the result of the tighter regulatory obligations imposed on the agencies: the obligation to register with the ESMA and the SEC, obligations to publish the methodology, obligation to rotate analysts… Obtaining accreditation by the SEC (Security and Exchange Commission) is not a mere formality as experienced by the Chinese agency Dagong which was given a refusal.

B) Greater competition desired by the market players

– 64 % of investors questioned by the Senate want more competition, 25 % stated that they want "much more" competition.

– In Europe, unfortunately, the activity of the new agencies registered by the European Securities and Markets Authority is confidential to the point where the central Bank does not recognize them for the purpose of assessing the assets that the banks in the euro zone present by way of guarantee.

The strategy pursued at European level is **far from convincing** on this point. Initially the accreditation policy of the European Securities and Markets Authority (ESMA) was not particularly demanding as it registered or certified no less than seventeen, including a Bulgarian agency which is tiny compared to Standard and Poor's or Moody's. Small structures, whose credibility and reputation are weak to the point of being non-existent, have been authorized to offer their services in the European market.

As there is little chance of issuers spontaneously calling on these small agencies, the European Commission has proposed, in the context of the draft regulation under discussion in Brussels, an additional measure that would facilitate their access to the market: rotation. However, the credit rating industry is not that of the statutory auditors where this practice, and the co-auditor, have been introduced with success. In relation to rating, Europe is currently stubbornly attached to the **myth of a mechanical reinforcement of competition.**

C) The measures to be taken

- First of all, income can be taxed, even if the ratings market is not the only oligopolistic market. Currently, the only exceptional tax imposed on rating agencies in Europe is that intended to finance cost of supervision by the European Securities and Markets Authority (ESMA). Its amount is symbolic, EUR 3 million, of which

90 % is paid by the three major rating agencies. It is therefore important to **increase significantly the supervision costs of rating agencies.**

– There remains the question of a new entrant into the ratings market. This does not involve a policy aimed at benefiting small players in the domestic ratings market, but rather establishing whether a major European player, of global stature, can emerge. This is an industrial and political concern, to take into account the essential role that rating could play over time in the financial markets.

– **At a theoretical level,** if it is deemed that rating has the characteristics of a "public asset", **a European public agency is fully justified.** Moody's has also supported the validity of this idea. The public agency should be financed by a hypothecated tax and an appropriate legal form (a foundation) should be chosen in order to avoid conflicts of interest as it would rate the States which had brought it into existence and which finance it, in one way or another.

– However, in the current context, the road towards the creation of a public agency is the **least likely to prosper.** This is essentially a matter of context : the sovereign debt crisis would make the markets highly suspicious about any State initiative seeking to provide what would be considered "their agency", and therefore the "voice of the States". **Such an agency should also obtain accreditation from the American SEC if it is to play a global role.**

– A pragmatic alternative may be found in diversifying ratings. Certain central banks, starting with the Bank of France, but also the central banks of Germany, Austria and Spain, have developed their own system for scoring companies. The Bank of France has become a "rating agency" which rates about 260 000 French companies. The European Central Bank rates the States. Despite the reticence of the central banks, this should be explored, particularly if, in the long run, SMEs which do not have the necessary funds to pay for their rating, were obliged to finance their activities through bondsissuance.

One can also envisage the **commercial banks,** which also assess the credit risk of their clients, using internal models, communicating their ratings to a European public body, which would be charged with **aggregating** them with a view to making public an **overall indicator**.

- As regards to private initiatives, the Senate is aware of the ambitious projects proposed by the German consultancy firm Roland Berger or by the Bertelsmann foundation. As these are measures taken by companies on an individual basis, it is difficult to support them save at the political level. However, as it often does in the field of research and development, the European Commission could launch **a call for projects in order to encourage one or more private initiatives aimed at creating a new European agency of world stature.** Under the terms of the call for projects, the European private operator or operators selected could benefit from the Commission seal of approval and financing for innovative methodological developments.

CONCLUSION

The errors and undisputed domination of the three major rating companies Standard and Poor's, Moody's and Fitch are not destined to continue forever. However, there must be an awareness of the precise role that these companies play in financial globalization and their part in the management of major balance of payments imbalances between Europe, Asia and America.

The call for "detoxification" will be **met in the long term** with the cessation of systematic reliance on ratings. The three major agencies in fact occupy a position left vacant in the area of risk assessment, particularly for the most complex products. New actors must take repossession of this role.

In the short term, it is because ratings are not simple "opinions" that rating activity must become a **regulated profession.** It has become so partially, in the United States since 2007, in Europe since 2009. On this particular point, the gap between these two economic areas could widen. Since the Dodd-Frank act in July 2010, there has been a reversal in the United States, with the abandonment of certain provisions concerning the liability of agencies or the refusal of the SEC to invest greater efforts in the regulation of rating agencies. On the other hand, we can be thankful for the progress made in Europe in the field of regulation, despite its initial delay. Convergence between Europe and the United States must be found at the G20, based on an **ambitious vision of regulation.**

The Senate is particularly sensitive to the application of laws. The prerogatives vested in the European Securities and Markets Authority must be exercised pro-actively and transparently.

We must therefore be favorably disposed towards the ambition of the new European text currently under consideration. It deals with major questions such as the civil liability of agencies, suppression of conflicts of interest between the agencies and their shareholders, the transparency of fees or the opinion of the European Securities and Markets Authority concerning changes in methodology.

The 26 proposals contained in the report present an ambitious vision of these matters. They are often in keeping with the major options defended by the European Commission and the European Parliament, though **often more ambitious.**

THE PROPOSALS CONTAINED IN THE REPORT ON THE RATING AGENCIES

The challenge of regulatory convergence between Europe and the United States

1. The introduction, at the behest of the G 20, of **common registration at international level** for the major rating agencies which have a systemic role, with convergence between the SEC and the European Securities and Markets Authority (aim: to promote regulatory convergence in relation to the rating agencies).

The long road to detoxification

2. Systematic suppression and listing in regulations of all mandatory recourse to ratings (aim: to leave the market players a free hand to develop alternative risk assessment methods).

3. The **progressive reallocation** to regulators (in France, the prudential control Authority, but above all the Bank of France) of the quasi-regulatory role delegated to rating agencies (aim: for exemplary reasons, to reallocate risk assessment to the regulators).

The appearance of a new major European player

4. The launch of a **call for European projects** for private agency projects, with possible public financing for innovative methodological developments (aim: to stimulate the emergence of a European initiative of credible stature under conditions of impartiality vis-à-vis various proposers of projects).

Diversification of ratings

5. The **publication** of scores compiled by the central banks in the euro zone and the ratings of the European Central Bank, in accordance with procedures to be defined in a feasibility study, and of those carried out by the commercial banks, **amalgamated** by a public body (aim : to promote the dissemination of quality ratings, issued by credible public or private players).

Liability as a vector for change

6. A system of **civil liability** harmonized at European level, with inversion of the burden of proof, and a ban on the principle of clauses exempting liability or limiting the amount of damages and interest (aim: to make it possible for agencies to be effectively held liable).

7. The requirement for **minimal capital** imposed on the agencies by the European Securities and Markets Authority, having regard to the data (turnover, number of ratings issued, share capital aggregated at European level, etc.) at its disposal and the mandatory requirement to take out "professional civil liability" insurance (aim: to enable the agencies to effectively face up to their liabilities).

8. Increasing the amount of **administrative sanctions** that can be announced by the ESMA abolishing the absolute value of the ceiling (aim : to increase the disincentive effect of ESMA sanctions).

A new economic model

9. Change to an **investor-pays model,** making it obligatory to pass via a platform that centralizes all the information linked to underlying factors, in relation to structured products (aim: to end the collusion of interests in the field of securitization).

The improvement of methodologies

10.A **preliminary opinion** procedure of the European Securities and Markets Authority on significant changes in the models developed by the rating agencies (aim: to embark on a process for the validation of the agencies' methodologies like that carried out for the internal risk assessment models of the banks).

11.The creation of a **forum,** whose general secretariat would be approved by the European Securities and Markets Authority, with a view to systematically organizing discussions and research in relation to rating methodologies between the agencies, the investors, the issuers and academics (aim : to promote understanding of the agencies' methodologies and stimulate research in this area).

12. Substantial increase in the **contribution levied by the ESMA** on the rating agencies (aim : to tax the profit earned by the agencies on a market where high regulatory barriers to entry have been erected.

The link with democratic bodies

13. **Consultation of Parliament's finance committees** by the rating agencies on sovereign debt, as happens with the IMF in the context of chapter IV (aim : to improve the quality of the rating of sovereign debt by taking parliamentary work into consideration).

The end of interference with democratic debates

14. The obligation for the agencies to provide a **timetable for the publication** of sovereign ratings on a date that is fixed, transparent and determined in advance (aim: to avoid the volatility of ratings and heated exchanges with the markets, reduce the interference of ratings with the democratic agenda of States).

A new relationship with issuers and investors

15. The inclusion of a "**confidence index**", as in the case of any forecasting exercise, in the rating (aim: to enable the investor to have an appropriate idea of the reliability of the rating and enable the agency to give a commitment about the quality of the information received from the issuer).

16. The inclusion, in the agency's press release, of a space reserved, in a predetermined format, for a "**right of reply**" by the issuer (aim: to enable the investor to have at one and the same time the analysis of the agency and that of the issuer, thereby encouraging totally reliable information).

17. The publication in companies' annual reports of **all the sums paid** to rating agencies (aim: to increase transparency in the ratings market).

18. The introduction of a **call for tender** at the level of issuers for the renewal of ratings contracts (aim: to create the conditions for sound and transparent competition between rating agencies by reestablishing the balance of power between the agencies and the issuers).

Human resources in relation to the quality of ratings

19. The definition by ESMA of a **harmonized workload indicator** for analysts (aim : to enable effective control by the agencies and by the regulator of the workload of analysts).

20. The introduction by ESMA of a requirement for a system of **professional certification** for analysts approved by an independent external body (aim: to provide greater assurance about the professional qualification of analysts).

21. A **more active** policy pursued by the ESMA for controlling human resources following the registration of agencies (aim: to guarantee the quality of the European registration procedure).

Better prevention of conflicts of interest

22 Better control by ESMA of "**auxiliary services**" (aim: to avoid confusion between "auxiliary service" and ratings advice).

23. Ban on an agency rating a company while a shareholder of the agency – regardless of the size of its shareholding – is also represented on the board of directors or supervisory board of the rated issuer (aim : to avoid conflicts of interest between the rating agencies and their shareholders).

Better information on sovereign debt

24. Reduce the influence of the rating agencies by means of the publication by the State of a **credible** macro-economic future public finance programme, with **realistic** medium-term objectives, and whose budget aspects are **documented** (aim: to increase confidence in the presentation of budgets by the public authorities in order to make the consultation of agency ratings by investors less useful).

25. The **certification,** by the Court of Auditors, of the major accounts of health establishments, testing the certification of certain accounts of local authorities, in order to help investors grasp the situation with regard to public accounts, and monitoring the certification procedure for State and social security accounts (aim: to guarantee the quality of accounts for investors, without recourse to the agencies).

26. The harmonization of public accounts within the euro zone, organized in accordance with suitable standards adopted by legitimate committees (aim: to reduce heterogeneity making recourse to the single standard of the agencies indispensable for investors).

SÉNAT

www.senat.fr/espace_presse