

losco advises G20 on credit rating agencies oversight

12.03.09

The International Organization of Securities Commissions' Task Force on Credit Rating Agencies has published the results of its work reviewing credit rating agency implementation of its Code of Conduct Fundamentals for Credit Rating Agencies.

losco is also publishing a Note being sent to the G20 and Financial Stability Forum regarding the use of the losco CRA Code as the basis for international oversight of credit rating agencies and mechanisms by which regulators can help assure adequate cross-border supervision of globally active agencies.

Implementation of the losco CRA Code by credit rating agencies through their own codes of conduct amounts to a public statement by agencies of the extent to which they agree with the international regulatory consensus.

Investors can make judgments about credit rating agencies and the quality of their ratings based on the degree to which they have decided to adhere to this consensus i.e. implementation of the losco CRA Code in their own code of conduct.

To assist investors and other interested parties in determining whether agencies have implemented the losco CRA Code, losco has published a report analysing the extent to which agencies around the world have incorporated the losco CRA Code provisions into their codes of conduct.

The report has found that a larger proportion of the agencies reviewed were aware of the losco CRA Code, and have taken steps to incorporate its provisions into their codes of conduct, than when they were previously surveyed for losco's first implementation review in 2007.

The review found that seven out of the 21 credit rating agencies reviewed had implemented the 2008 losco CRA Code provisions.

The three largest credit rating agencies - Fitch, Moody's and Standard & Poors - have substantially implemented the revisions of the losco CRA Code.

The Japan Credit Rating Agency is in complete compliance with the losco CRA Code, while Rating & Investment Information deviates with respect to one provision for which it provides an explanation.

Fedafin Federalism and Finance of Switzerland has also adopted the 2008 losco CRA Code revisions, and Dominion Bond Rating Service substantially incorporates

the losco CRA Code with a few exceptions.

Two credit rating agencies, Austin Ratings and Euler Hermes Rating, intend to update their codes of conduct in the near future.

Fourteen of the agencies reviewed did not address the 2008 revisions of the losco CRA Code. losco says a number of factors may have contributed to this including the proposed EU regulations, resource constraints and the fact that the 2008 revisions were aimed at structured finance products which does not necessarily apply to agencies that do not offer these ratings.

losco has developed a model examination module to be used, as appropriate, by those losco members that regulate and inspect credit rating agencies.

The losco Task Force on Credit Rating Agencies, which developed the losco CRA Code and other CRA-related projects, is being converted into a permanent standing committee of losco's Technical Committee.

The committee will serve two purposes: reviewing and updating the international regulatory consensus regarding credit rating agency oversight; and serving as a forum for regular interaction between regulators and agencies.

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