Ask the experts:

Independent opinion of credit rating industry is critical

Is self regulation of the rating industry sustainable?

■ Jane Pilcher, Group Treasurer, Anglian Water

I certainly hope it is! Whilst issuers are not always going to be happy with the ratings assigned to them by the rating agencies, it is the 'independent' opinion of the rating agencies that is critical to investors and users of rating services. Self regulation is the best way to maintain this rating agency independence.

I welcome the Code of Standard Practices for Participants in the Credit Rating Process which has been published recently by the ACT and others. This provides a voluntary code for good behaviour for both issuers and rating agencies that is very helpful. In Anglian Water we have practiced the Issuers Code for many years and regularly meet with each of the three agencies that rate our debt, working with them to ensure they have a good understanding of our business and are able to react quickly if we, say, issue new debt in response to favourable market conditions as we did earlier this year. If rating agencies are going to maintain ratings and provide the service required by investors, they need to be kept informed of changes in respect of the industry and company and publish regular information and reports.

One of the key areas of sensitivity for issuers is the access to confidential non-public information. Issuers will only have confidence to share this information if rating agencies commit for their part to give issuers an opportunity to review any proposed publications prior to release to ensure that any non-public information is removed and any factual errors may be corrected. This is incorporated in the Code.

Over recent years I have seen an improving trend in the approach from the rating agencies. There is greater transparency in the methodology of each rating agency. However, both issuers and agencies need to ensure that Code of Standard practice is adhered to if self regulation is to continue.

■ Guy Hewitt, UK region head of Standard & Poor's

It is clear that users of rating opinions would like to see ratings agencies continue to do their job without undue interference from regulators – and to remain firmly accountable for the quality and reliability of their opinions to the market. That is a system that has served the international capital markets very well for the last 30 or more years, and not one to be discarded lightly.

The views of the major capital markets organisations that participated in the recent consultations by the Committee of European Securities Regulators and the International Organisation of Securities Commissions (IOSCO) are instructive. The current ratings system, they said, functions well. Rating agencies have an excellent track record in assessing credit risk (as their own and third party studies of rating/default correlations consistently show), and there has been no market failure or market abuse on the part of rating agencies to justify extra control or regulation. There is no evidence, they noted, to suggest that ratings opinions are in any way tainted by potential conflicts of interest.

That is not to say that rating agencies can stand still. Standard & Poor's has taken many steps in recent years to enhance its ratings and to adapt to evolving market needs. These include the addition of special accounting expertise, expanded liquidity analysis and recovery assessment; additional use of quantitative tools and models; and increased analysis of corporate governance practices.

We believe it is in the interest of the market that we continue, unimpeded, in our role of providing independent analysis and opinions of credit risk. Investors and other users of ratings should remain – as they have for many decades – the judge of how we perform that role. They, not regulators or other interested parties, will determine the influence and impact we have in the market.

■ Bob Williams, Group Treasurer, Allied Domecq

Like all such debates there are convincing pros and cons. I believe that the rating agencies act as an important independent provider of credit opinions for corporates and investors, though they should be clearer on whether ratings are on a formal or informal basis because a perceived level playing field may not always be the case, e.g. formal ratings include access to a corporate's senior management.

My view is that corporates are looking to each rating agency to provide clear and understandable opinions that are consistent and transparent. This in turn allows opportunities to compare across industry. Corporates have a duty in this respect by supporting the process with sufficient information, including flagging issues in advance, to enable rating agencies to draw their conclusions. Ongoing, regular dialogue and formal meetings will act as an important enabler in this process.

I am therefore supportive of the recent Code of Conduct issued by IOSCO. If the rating agencies follow the Code then self regulation could be sustainable. It will fall down if rating agencies 'move the goalposts' or engage in a series of changes which restrict ability to compare year on year and therefore lack credibility. This would lead to a lack of accountability that could force formal regulation.