

The Association of Corporate Treasurers

Comments in response to *Rating Preferred Stock and Hybrid Securities* Moody's Investors Service, November 2006

January 2007

The Association of Corporate Treasurers (ACT)

The ACT is a professional body for those working in corporate treasury, risk and corporate finance. Further information is provided at the end of these comments and on our website www.treasurers.org.

Contact details are also at the end of these comments.

We have canvassed the opinion of our members through our monthly e-newsletter to members and others, our Ratings working group and our Policy and Technical Committee.

General

The ACT welcomes the opportunity to comment on this matter. Our comments reflect the considerations of an issuer, although the issuer view must itself take account of the investor perspective and the overall functioning of the market.

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Response

In summary, our understanding is that the proposal involves combining existing notching guidelines, which address severity of loss in the event of a default, with incremental notching to reflect the fact that scheduled payments may be omitted without triggering a default by the issuer.

Although we recognise the potential for additional risk to investors if the issuer is able to omit payments without subsequent re-instatement, we would make the following observations.

- ⇒ There is no obvious difference in market pricing between securities with or without this provision;

- ⇒ Investors do not consider the increase in risk to be material;
- ⇒ There is no impact on the likelihood of default; and
- ⇒ The discussion paper makes clear that there is no discernable difference in recovery rates between preferred securities with or without this provision once those securities have defaulted.

In conclusion the ACT's view is that the proposed notching adjustment for these securities would not be welcomed by market participants nor add to the efficient functioning of the bond markets.

The Association of Corporate Treasurers

The ACT is the international body for finance professionals working in treasury, risk and corporate finance. Through the ACT we come together as practitioners, technical experts and educators in a range of disciplines that underpin the financial security and prosperity of an organisation.

The ACT defines and promotes best practice in treasury and makes representations to government, regulators and standard setters.

We are also the world's leading examining body for treasury, providing benchmark qualifications and continuing development through training, conferences, publications, including *The Treasurer* magazine and the annual *Treasurer's Handbook*, and online.

Our 3,600 members work widely in companies of all sizes through industry, commerce, financial institutions and professional service firms.

Our guidelines on policy and technical matters are available at <http://www.treasurers.org/technical/resources/manifestosept2006.pdf>.

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