

Treasurers see risk to competition and innovation and higher costs in proposed credit rating agency regulation

London

2 September 2008

The ACT strongly supports the European Associations of Corporate Treasurers' comments to the Commission services on the proposal for European Union regulation of credit rating agencies and shares the concern of the Chairman of Paris based EACT, Olivier Brissaud, who noted:

"Our members are concerned that the proposed Directive would increase the cost of capital for EU-based companies. Rather than limited, principles-based regulation the draft is often more like attempted micro-management. It risks raising costs, freezing competition and stopping innovation in credit ratings services."

The full text of the EACT press release is below.

Speaking in London, Richard Raeburn, Chief Executive of the Association of Corporate Treasurers said:

"Whilst we support the EACT's identification of the many potential problems with the Commission services' initial proposals in this area, we have particular concern at the proposal for an EU-level regulator for rating agencies. The market and legal environment in the various Member States requires change over many years to prepare for such a move."

The full text of the EACT comments on Response to the Consultation by the Commission services on Credit Rating Agencies (CRAs), 31 July 2008 can be found at <http://www.treasurers.org/creditratingagencies/eactresponse/0908>

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NOTES TO EDITORS

A summary of the Comments can be found in the EACT release below.

Should editors wish to commission an article from the ACT, please contact Sharon Tidball (as above).

About the ACT

The Association of Corporate Treasurers (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 and publications – including The Treasurer magazine.

For further information visit www.treasurers.org

Attached below: EACT release

European Associations of Corporate Treasurers

2 September 2008

Treasurers see risk to competition and innovation and higher costs in proposed credit rating agency regulation

The European Associations of Corporate Treasurers (EACT), responding to a Commission Services consultation, has called for radical changes to the proposed European regulation of credit rating agencies (CRAs).

The EACT makes some key points:

- Credit ratings in the more traditional sovereign and corporate sectors have not been a problem. Problems have arisen in relation to structured finance instruments and from some users' misunderstanding of what credit ratings are.
- The proposals take a fixed, narrow view of ratings, not recognising the existing and potential variety in size and type of credit rating agency with varying outputs, methods and relationships with interested parties.
- Given the global nature of many financial markets, issuers and investors, the proposals pay insufficient attention to wider international aspects and extra-territorial effects.
- The Commission should consider more fully and at length the consequences of the current proposals and not legislate in haste.

Olivier Brissaud, Chairman of the EACT commented:

“Our members are concerned that the proposed Directive would increase the cost of capital for EU-based companies. Rather than limited, principles-based regulation the draft is often more like attempted micro-management. It risks raising costs, freezing competition and stopping innovation in credit ratings services.”

A copy of the full EACT Response is available at
<http://www.treasurers.org/creditratingagencies/eactresponse/0908>

Notes for Editors

The consultation by the Commission Services on Credit Rating Agencies, 31 July 2008, is available at
http://ec.europa.eu/internal_market/consultations/docs/securities_agencies/consultation-cra-framework_en.pdf.

The closing date for responses is September 5th. It proposes introduction of new EU provisions for the authorisation, registration and supervision of credit rating agencies and for their operation.

Corporate and Sovereign ratings are ratings for the obligations of traditional debt issuers – companies, including financial institutions and governments and government agencies.

Structured finance instrument ratings are ratings for the obligations of “a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranching, having the following characteristics:

(a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and

(b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme” (Directive 2006/48/EC at Article 4(36))
 Media attention has recently focused on schemes of which the underlying risks are mortgages and consumer loans of various kinds and highly leveraged corporate debt.

Treasurers are responsible for a varying range of matters in a firm, usually including financial policy, financial risk management, the financing of the company as well as day to day liquidity, currency dealing etc.

Particular problems in the proposed Directive/regulation not mentioned above but which the EACT highlights to the Commission Services include:

- Commonly used ratings are not merely mechanical but depend on the independent judgement from the CRA's staff. The proposals may materially undermine this concept. This arises not only in excessive restriction of the period a CRA analyst may work on rating an entity but from opening the way for intervention by regulators in defence of national champions and other weaknesses
- Trying to make CRAs move from just analysing the information they are provided with about rated parties to seeking to verify it, radically changes the cost structure of the industry as they move from being analysts making a judgement to being auditors conducting detailed testing.
- There is a misunderstanding of the role of the board of a company and this leads to infeasible corporate governance proposals for CRAs.
- There is often an excess of zeal in trying to make CRAs review ratings, methodologies, etc. or to provide additional services to users which even if practical would greatly increase costs of a rating and increase the cost of capital to European firms.

EACT details and contact details

The European Associations of Corporate Treasurers (EACT) brings together 18 national associations representing treasury and finance professionals from 17 countries of the European Union. They represent about 4,600 companies/groups and 8,100 corporate treasurers and finance professionals.

Constituent bodies are:

ACT, The Association of Corporate Treasurers (UK)	GEFIU, German Financial Executives Institute (Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V.)
AFTE, Association Française des Trésoriers d'Entreprise	HTC, Hungarian Treasury Club
AITI, Associazione Italiana Tesorieri d'Impresa	IACT, Irish Association of Corporate Treasurers
ASSET, Asociacion Espanola de Financieros y Tesoreros de Empresa (Spain)	ÖPWZ, Forum Finanzen (Austria)
ATEB, Association of Corporate Treasurers in Belgium	PCTA, Polish Corporate Treasurers Association
ATEL, Association des Trésoriers d'Entreprise au Luxembourg	SACT, Swedish Association of Corporate Treasurers
CAT, Czech Association of Treasury	SAF, Slovak Association of Finance and Treasury
DACT, Dutch Association of Corporate Treasurers	SCTA, Slovenian Corporate Treasurers Association
FACT, Finnish Association of Corporate Treasurers	VDT, Verband Deutscher Treasurer (Germany)

The EACT gives prominence to the issues faced by treasury and finance professionals across Europe with the European authorities, national governments, regulators and standard-setters. Together we promote the value of treasury skills through best practice and education.

We ensure that the treasury role continues to evolve as an essential component within a dynamic financial environment.

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The ACT's approach to policy issues is set out in the Policy and Technical Manifesto, www.treasurers.org/technical/manifesto

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