



National Association of Corporate Treasurers
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July 28, 2021

The Honorable Brad Sherman
Chairman
Subcommittee on Investor Protection,
Entrepreneurship and Capital Markets
U.S. House of Representatives
Washington, DC 20515

The Honorable Bill Huizenga
Ranking Member
Subcommittee on Investor Protection,
Entrepreneurship and Capital Markets
U.S. House of Representatives
Washington, DC 20515

Re: Subcommittee Hearing of July 21, 2021 “Bond Rating Agencies: Examining the ‘Nationally Recognized’ Statistical Rating Organizations” – Comments for the Hearing Record

Dear Chairman Sherman and Ranking Member Huizenga:

On behalf of the National Association of Corporate Treasurers (“NACT”) and treasurers across the country, I am writing to provide our views as you consider potential legislation affecting the publicly available ratings of the debt our treasurers’ companies issue to finance their day-to-day operations and keep our economy functioning and growing. NACT is an organization of treasury professionals from some of the largest public and private corporations, as well as many Main Street companies from across the country. Corporate treasurers have the primary responsibility to safeguard their companies’ cash and investments as well as to arrange financing to sustain operations and to provide for future growth.

In these times of rapid change and as we continue to recover from the effects of COVID-19, corporate treasurers need to move quickly to ensure their companies have ready access to the funds they need. This requires them to make sure that their banks and those who purchase the debt securities they issue have all the information they need to make what they hope will be a positive decision to advance them funds. Credit rating agencies (“CRAs”) perform a vital function in this process by devoting their long experience and industry knowledge to understanding the details of the business plans, market positioning and growth prospects, quality and success of management, and many other factors affecting the current and future financial performance of the companies they rate.

Corporate treasurers usually act as the main point of contact with the CRAs. They devote much time to making sure the CRAs have the information they need and to answer whatever

questions the CRAs' analysts may have. As part of this process, CRA analysts ask tough and probing questions. Corporate treasurers in their roles as issuers find that CRAs seek to manage potential conflicts that arise in their business model, since the CRAs depend to a significant degree upon their reputations and the confidence both investors and issuers have in their ratings. Banks and purchasers of debt securities rely on the CRAs' reports as one part of the full picture of a company's creditworthiness they build up to make their credit decisions. The typical relationship issuing companies have with credit rating agencies involves the company choosing which agencies they feel will be capable of understanding their current business position and future prospects and will be the best positioned to convey that information to the banks, institutional investors, and other providers of capital on which they rely. This choice involves an assessment of the experience the rating agency has with the company's business sector – and that knowledge is by no means uniform across all credit rating agencies. As debt issuers, we enter into detailed fee-paid agreement with the chosen rating agency specifying the responsibilities of both parties. This is a competitive fee-for-service model that has served us and the markets well over many years.

I was, most recently for 15 years, treasurer of a large U.S.-based multinational chemical manufacturer. Like most issuers, we chose CRAs that knew our industry and were committed to maintaining that expertise by covering a range of companies in the industry as well as training analysts to be industry knowledgeable and able to render the required expert judgements. We are able to base our assessment of this choice on a variety of factors, including the performance data that CRAs provide to the market. Certainly, we considered how many other companies in our industry the CRA covered and how many of their securities they rated. The investor side is also important. Good CRAs inform their opinions by considering questions from investors on an issuer. Crucially, we take into account the feedback that we receive from the investors to whom we sell this debt and are conscious of which CRAs they consult. This involves a virtuous cycle sustained by the constant flow of information among issuers, rating agencies, and investors. Small CRAs or those without industry expertise are fundamentally unable to participate in these extensive exchanges. Equally important is how disrupting the current model could impede the efficiency of the debt markets, slowing corporate access to funding and our ability to respond agilely to fast-moving debt market conditions, if we had to await an assignment to a CRA for a given transaction.¹ I can only urge you to consider the importance of this and to reject any effort to legislate the relationship among borrowers, lenders, and CRAs, especially imposing some mandatory assignment or rotation system disrupting these relationships.

¹ It is worth highlighting that when the SEC studied the rotation model in 2012, the report found:

Assessing the capacity and expertise of each Qualified NRSRO on an ongoing basis could be a fairly complex process. If not done properly, the selection process could misallocate initial ratings assignments to Qualified NRSROs that do not have sufficient resources to handle the volume of assignments or the inhouse expertise to rate a type of transaction. This could result in lower quality credit ratings or cause delays in bringing ... products to market.

The dynamic nature of business activity and the financial markets we use often require issuers to test the likely ratings outcomes of strategic acquisitions or divestments and the associated financings or debt paydowns. Many corporations use the ratings evaluation or assessment services of the large CRAs. This involves providing confidential information about a potential acquisition or divestment and receiving the judgement of the CRA's ratings committee of the rating consequence qualified by the assumptions given. Not being able to engage quickly with a CRA that already understands the issuer's base business and is thereby able to assess quickly the proposed change, could impair the prospects for achieving a successful strategic change. Depending on a government agency or board to make an assignment of a prospective issuer to a rating agency would be very disruptive to this process, especially with the wide variability of industry expertise and sector coverage across the range of all CRAs that could possibly result in assignment to a CRA without the sufficient qualifications to render the required expert judgements.

In summary, we caution against actions that could be disruptive to companies' ability to finance their business activity in these times of such dynamic change, or the markets more broadly. CRAs play an active role in providing their judgment based on interactions among issuers and investors. While credit ratings are just one element of a lender's credit decision, they are important and a disruption of those interactions by a government-mandated matching of issuers and CRAs would likely have a significant adverse impact. We are concerned that a government-controlled assignment or rotation system could reduce the incentive for CRAs to compete based on the quality of their ratings and their knowledge of the issuer and its industry sector. It must be acknowledged that competition based on quality and price of services is a model that has served us and markets well – let's not disrupt that for a less responsive bureaucratic, mandated process.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Deas, Jr.', written in a cursive style.

Thomas C. Deas, Jr.
Chairman