**Summary of the ECOSOC meeting on**
**"The Impact of Credit Rating Agencies on Financing for Sustainable Development"**

**8 December 2014**

## Introduction

1. The ECOSOC meeting on "The Impact of Credit Rating Agencies on Financing for Sustainable Development" discussed the role of credit rating agencies (CRAs) in influencing the flow of finance towards companies, projects and sovereigns across the world. Shortcomings in the credit rating industry, that became apparent in the recent financial crisis, were discussed with a view to assessing the impact of credit rating agencies on financing for sustainable development and to arrive at practical suggestions that can serve as an input to the preparatory process for the third International Conference on Financing for Development.

2. The meeting was chaired by H.E. Ambassador Martin Sajdik, President of the Economic and Social Council and moderated by Ms. Merli Baroudi, Director and Chief Credit Officer, World Bank Group. The panelists were Ms. Chee Mee Hu, Managing Director, Project Finance and Infrastructure Group, Moody's Investors Service; Mr. Thomas Missong, President of the European Association of Credit Rating Agencies**;** Mr. Bruno Bertocci, Managing Director and Global Equity Portfolio Manager, UBS Global Asset Management; and Professor John Coffee, Columbia University Law School.

3. The meeting began with opening remarks by Ambassador Sajdik and an introductory statement by Ms. Baroudi. Following this, each of the panelists made a brief intervention followed by an interactive discussion that was moderated by Ms. Baroudi. Ambassador Sajdik concluded the meeting with closing remarks. The main points raised during the meeting are summarized below.

## Opening remarks and initial interventions

4. H.E. Ambassador Martin Sajdik stressed that properly functioning credit rating agencies are of utmost importance as they influence the ability of both sovereigns and corporations to borrow and finance development. He pointed out that this meeting built on the General Assembly Thematic Debate on "The Role of Credit Rating Agencies in the International Financial System" that took place on 10 September 2013. That meeting attested to the considerable influence that ratings wield on the ability of both sovereigns and corporations to borrow and finance development. He also outlined deficiencies in the credit rating industry, such as the extremely concentrated market structure and the conflict of interest in the current business model, and mentioned on-going efforts at national and international levels to address these issues as well as further efforts that may be needed. During last year's thematic debate, a number of ideas were put forward to complement and strengthen existing efforts, including measures to increase transparency and competition, alternative structures to

address conflicts of interest, suggestions for the establishment of domestic and/or public rating agencies, and initiatives for investors to better understand the role of ratings and make better use of them. He stated that this meeting will aim to further expand on some of these ideas and introduce additional issues relevant to assessing the impact of CRAs on financing for sustainable development. Ambassador Sajdik stressed that the objective was to arrive at practical suggestions that could input into the preparatory process for the third International Conference on Financing for Development that will take place in Addis Ababa, Ethiopia from 13-16 July 2015.

5. In her introductory remarks, Ms. Baroudi stressed that CRAs have the useful and important role of ensuring greater efficiency in capital markets. According to her, the financial crisis raised questions about the effectiveness of CRAs in providing accurate ratings and demonstrated the downsides of inaccurate credit ratings as well as potential spill-over effects for financial markets and the real economy. Ms. Baroudi highlighted a number of issues relating to CRAs that have attracted attention since the financial crisis. These include the hard-wiring of ratings into the regulatory framework, the excessive reliance of investors on ratings, the lack of competition in the ratings industry, low levels of transparency pertaining

different rating teams so as to ensure consistency and has grown in size and purview since the financial crisis. The storage of information has also been centralized. In terms of rating methodologies, Ms. Hu explained that there are different methodologies for various asset types that are designed to be transparent. She also emphasized that a strong divide between business and analytical functions which has tended to overcome conflict of interest concerns relating to the issuer pays model. The reforms have also led to staff being added to meet new requirements relating to credit policy design, compliance, technology and training and documentation.

7. Mr. Thomas Missong introduced the European Association of Credit Rating Agencies (EACRA) that was founded in 2009 after the first European regulation on credit rating agencies was adopted. The membership has since grown from 5 to 17 members who represent rating agencies of varying sizes and industry focus. He outlined measures that EU has introduced to strengthen competition in the ratings industry, which has seen the number of External Credit Assessment Institutions increase. Regulation had been introduced that stipulated that issuers or a related third party that intend to appoint at least two CRAs shall consider assigning at least one credit rating agency with no more than ten percent of the total market share in terms of revenues. That same regulation introduced a mandatory rotation rule obliging issuers of structured finance products with underlying re-securitized assets who pay CRAs for their ratings to utilize a different agency every four years, including a "cooling off"-period and an exemption rule for smaller CRAs. However, according to Mr. Missong, there is a general consensus among EACRA members that the regulations are unlikely to lead to radically improved competition in the European Union as the measures do not really tackle structural barriers. For instance, the cost of compliance remains disproportionally high for new and smaller credit rating agencies and that there is a lack of an international framework and reciprocity in regulation. According to Mr. Missong, while the number of CRAs has risen, the status quo has not been challenged and recent legislation at the European level have not gone far enough to challenge the market share of the big credit rating agencies.

8. Mr. Bruno Bertocci explained that some of the proposals that are being discussed with regard to credit rating agencies stipulate the need to consider data in a more holistic way before making an investment decision. This is akin to the way that equity investors think about potential financial opportunities. Data that is considered in making investment decisions must be material in influencing the capital allocation decision, and all material data should be available when making an investment decision. According to Mr. Bertocci, the world

play a role similar to accounting data, and be used in the future when making investment decisions.

9. Professor John Coffee started his presentation by

11.

outlooks prepared by CRAs also play a role in

17. The session was closed by H.E. Mr. Martin Sajdik, President of the Economic and Social Council, who briefly outlined some of the broad issues covered in the meeting and thanked the distinguished panelists and moderator. He stressed that a summary of the discussions of the event would be presented to the co-facilitators of the third International Conference on Financing for Development as they embark on the process of preparing a draft outcome document.