

## **PRESS RELEASE**

### **Finance Watch ECON evidence on the reform of Credit Ratings Agencies**

Brussels, 24 January 2012: **Finance Watch** today gave evidence at a European Parliament public hearing on the European Commission's proposed reforms of credit ratings agencies.

Finance Watch Secretary General **Thierry Philipponnat** told the hearing that reforms must reduce the financial system's overreliance on the use of credit ratings.

"At the moment, credit rating agencies are both judge and jury. We must find a way to keep the "judge" role whilst getting rid of their "jury" role," he said.

Three measures would help to achieve this. These include:

- All references to external credit ratings should be systematically deleted from existing regulations, directives or guidelines (CRD, Solvency, ECB and ESA rules...), as partially reflected in Article 5 of the proposed Regulation.
- Fund managers should be forced to remove all references to credit ratings from their internal rules, strengthening the current proposal to require them "not to solely or mechanistically rely on external credit ratings" (Articles 1 and 2 of the amending Directive).
- The current letter-based ratings system should be replaced with a simple number expressing the probability of default, backed by a narrative text. This could be used to feed the European Rating Index (EURIX) managed by ESMA, as proposed in Articles 11a and 21 of the Regulation and ESMA would compute and publish on its web site the average probability of default.

"The current letter-based ratings system is not just an opinion, it is a verdict. No individual institution should have the power to influence by itself financial markets or economic decisions. We need something altogether more technical and less emotional: a system that would dilute the impact of any one particular rating agency and open the door to competition," said Mr Philipponnat.

The full text of Mr Philipponnat's speech can be found on the Finance Watch website.

For more information please contact Greg Ford at [greg.ford@finance-watch.org](mailto:greg.ford@finance-watch.org) or +44 (0) 7703.219.222

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## LINKS

- Webstream of the 24 January 2012 EP ECON committee public hearing:

<http://www.europarl.europa.eu/ep-live/en/committees/video?event=20120124-0900-COMMITTEE-ECON&vodtype=Live>

- Programme of the hearing:

<http://www.europarl.europa.eu/document/activities/cont/201201/20120110ATT35032/20120110ATT35032EN.pdf>

- European Commission resource page on ratings agencies, containing the draft Regulation and draft Directive:

[http://ec.europa.eu/internal\\_market/securities/agencies/index\\_en.htm](http://ec.europa.eu/internal_market/securities/agencies/index_en.htm)

## ABOUT FINANCE WATCH

- Finance Watch is an independent, non-profit public interest association dedicated to making finance work for society. Its members represent, collectively, close to 100 million European citizens and include consumer groups, trade unions, housing associations, financial experts, foundations, think tanks, environmental and other NGOs.

- Finance Watch is founded on the following principles: finance is essential for society, capital should be brought to productive use, finance should serve the economy, the transfer of credit risk to society is unacceptable, and markets should be fair and transparent.

- Finance Watch is funded by philanthropic grants, public donations and membership fees. It does not accept any funding from the financial industry. It was registered on 28 April 2011 as an *Association Internationale Sans But Lucratif* (non-profit international association) under Belgian law. For further information, please visit [www.finance-watch.org](http://www.finance-watch.org).