Corporate
Issuer Forum

ICMA
International Capital Market Association

European Securities and Markets Authority
www.esma.europa.eu

31 March 2015

Dear Sirs,

Reference: Competition, choice and conflicts of interest in the credit rating industry
Call for evidence – Issuer Response

The ICMA[1] is a pan-European self regulatory organisation and an influential voice for the global capital market. It has a membership of over 400 firms and represents a broad range of capital market interests including global investment banks and smaller regional banks, as well as asset managers, exchanges and other venues, central banks, law firms and other professional advisers. The ICMA's market conventions and standards have been the pillars of the international debt market for over 40 years.

The views expressed in this response have been compiled in light of a range of inputs provided by the ICMA's member firms, including representations made from the perspective of corporate issuers. As such, it represents a well informed considered, broadly-based view of the proposals from the relevant perspective and consequently, the ICMA respectfully requests that the ESMA gives careful consideration to the points that this response raises.

Please note that this response is limited to general observations on question 23 (*Please explain whether mandatory rotation should be extended to other asset classes*) of section 4 (*Questions for corporate and sovereign issuers*) of the Call for Evidence.

Q. 23 Please explain whether mandatory rotation should be extended to other asset classes.
Fundamentally, ICMA members do not support the proposed extension of mandatory rotation to other asset classes.

ICMA members are concerned that mandatory rotation interferes with the free choice of issuers and investors, instead compelling them to make choices by means of legislation. While competition is welcomed, this should be driven by demands and requirements of issuers and investors, and not be at the expense of freedom of choice. Further in this regard, there would be little incentive to compete for business if a rating agency is likely to be appointed in any event under mandatory rotation provisions.

Mandatory rotation risks damaging the quality of ratings. Continuity of monitoring and analysis is a very necessary element of the ratings process. Much time and effort is invested at both the level of issuers and

[1] For more information regarding the ICMA, please go to http://www.icmagroup.org/

rating agencies to ensure that there is a clear understanding of the issuer, the sector and the issuer's position in that sector, and internal policies including financial, legal, underwriting and risk management policies, and having the means to access the right channels of communication helps to ensure efficient dialogue. One cannot assume that the expertise and ability of every agency and indeed every analyst is equal across the board, and as such enforced rotation to a different rating agency could mean that the knowledge, know-how and experience may be lost and need to be built up every time, leading to inefficiencies in the rating process not only in terms of process, but also in terms of cost. Knowledge sharing between rating agencies may help with the handover process but also gives rise to confidentiality issues. Further, knowing that information may be shared at the end of a term may affect the free-flow of information between the issuer and the rating agency.

Mandatory rotation could also lead to fundamental malfunctions of the credit rating role: different rating agencies use different methodologies, notching adjustments and terminology, and forced rotation to an agency using such disparate metrics could lead to a different rating being applied, at times with no apparent direct correlation to the issuer. Similarly, different agencies may have different requirements in terms of, for instance, financial covenants, risk allocation in contractual arrangements and other protections, including areas of subjective judgment. All of these elements could create uncertainty and inconsistency for investors, who may already be faced with restrictions on investible securities rated by certain rating agencies.

CONCLUDING REMARKS:
The ICMA appreciates the valuable contribution made by ESMA's examination of the issues articulated in this response paper and would like to thank ESMA for its careful consideration of the points made herein. The ICMA remains at your disposal to discuss any of the above points.

Yours sincerely

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Secretary, Corporate Issuer Forum