Date: April 19th, 2013

To:

OECD
Committee of Financial Markets (CMF)
Ms. Marta Rilling
Via Email: marta.rilling@oecd.org

Reference: **CONSULTATION ON HIGH-LEVEL PRINCIPLES OF LONG-TERM INVESTMENT FINANCING BY INSTITUTIONAL INVESTORS**

Dear Ms. Rilling,

With references to the upcoming Financial Roundtable on April 25th and the consultative document on the "Draft OECD High-Level Principles on Long-Term Investments Financing by Institutional Investors" as distributed on April 12th, kindly find herewith some comments from our association. Given the short timetable to respond, our paper focuses on the role of credit ratings in long term financing. The European Commission has equally launched a consultation on this topic, deadline for response being only June 25th. We shall provide you with a copy of our response to the EC.

Long term investments (especially in the Infrastructure and Energy sector) require high financing need over a long-term period. Given the financing need, such projects are rarely financed exclusively by one source but rather several sources are being combined, whether in form of capital markets products, bank loans, public guarantees etc. Credit ratings are an important external and independent source of risk assessments (specialized on credit risk) widely used by investors. Furthermore, there is evidence from several countries showing that liquidity on capital markets is higher if ratings play a role. Credit ratings should therefore have a role in mobilizing LTIs – as opposed to market related measures, credit ratings (usually) have a longer-term horizon and show therefore less volatility than market implied measures (whether CDS, equity-related measures)

But, in order to avoid mechanistic reliance on ratings, we recommend that reference to ratings in long-term investments should be structured according the following recommendations:

- Avoid rating thresholds: There is a difference between the existence of a rating and the level of the rating. Instead of rating thresholds, Regulatory Technical Standards from Supervisory Authorities should take into the existence of ratings and, if required, adapt the requirements to the level of the rating (eg similar to the standardized approach where risk-weights depend on the level of the rating). Minimum rating threshold, such as the ECB Collateral eligibility criteria, lead to group behavior in case of rating downgrades and are often drivers of the liquidity of an issue

- Avoid rating related margins, avoid rating related collateral calls: some financing agreements link the interest margin (or the collateral requirements) to the level of the rating, thereby creating a potentially pro-cyclical loop. We recommend that such references should be replaced by specific financial measures (or other covenants) agreed by the financing parties.

- References to specific rating agencies should be avoided – references should be done to all registered players: some asset-management contracts include in their internal guidelines minimum rating levels by specific CRAs. Given the increasing number of registered agencies, such references should be replaced with the term registered CRA (and if required minimum rating levels should be replaced with corresponding credit quality steps.

- provide for rules how to use different ratings: given the high funding need in the field of infrastructure financing, we recommend that 2 or more rating agencies should be contracted to issue credit ratings. In parallel, clear rules how to use several ratings in sectoral legislation (eg mapping of ratings and ECAI) should be provided for.

- Use ratings in parallel to internal benchmark: A common sense compromise between the exclusive relying on external ratings and, on the opposite, the deletion of any reference to external ratings is advocating their use in parallel with the own internal evaluations performed by the investors. Such approach would encourage both the development of more advanced instruments for the debtors evaluation by the investors and also the search for additional and alternative assessments in a market context where the evaluation of creditworthiness is often very complex and thus it becomes fundamental to dispose of qualified external benchmarks.

With reference to the draft principle 3, we think that only highly-skilled very large institutional investors are able to carry out “environmental risks” assessments by their own.

The Draft principle 7 (“information sharing and disclosure”) includes the set-up of an international information platform accessible to institutional investors, providing comparative information on long-term investment projects across the world. We think that such information platforms are useful as they allow for accessing underlying information and make an informed decision/assessment. But:

- Such platform exists for several segments in different jurisdictions already – information available varies substantially, information is fragmented and accessible only to knowledgeable local investors
- Access to such platforms should be low priced in order to ensure that all potential users can access the information. Access for CRAs should be privileged (without the obligation to thereafter issue ratings).
- Ratings on LT projects should be available (but taking into account that investor-pays agencies sell their ratings).

The Draft Principle 8 (financial education) is important to ensure the correct use of information available and that all players act within their roles. We recommend that financial education should also cover credit ratings and how these should be used. This will ensure that investors understand the different ratings assigned and will reduce their mechanistic reliance on such assessments.

We would like to thank you for your kind invitation to participate in this roundtable – unfortunately; we have already a commitment for the same day in Brussels. We wish you an interesting exchange of views during the roundtable and remain at your full disposal for further clarifications.

Sincerely yours

Thomas Missong
EACRA President

Thomas Morgenstern
EACRA Secretary General

About EACRA

The European Association of Credit Rating Agencies (“EACRA”), registered in Paris, was established in November 2009. The Members of the Association currently originate from 10 European countries and include the following companies:

A.M. Best Europe - Rating services Limited (AMBERS) is a subsidiary of A.M. Best Inc who have been providing ratings to the Insurance Sector since 1899. AMBERS' rating coverage includes regional, national and global insurers located throughout Europe, the Middle East and Africa.

Assekurata Assekuranz Rating-Agentur is the first independent German rating agency that has specialized on the quality evaluation of insurance companies

Axesor: The first Spanish Rating agency registered with ESMA. Specialized in the middle market segment, with ample coverage of the Spanish corporate market.

Capital Intelligence (CI) offers independent rating opinions on financial institutions, corporates and governments in a wide range of countries, especially the emerging markets of Asia, Europe and the Middle East.

Cerved Group: Italian Credit Rating Agency recognized ECAI by Bank of Italy

Coface Services: French leader in business & marketing information and credit management solutions, providing a large range of tools to secure every step of companies' sales cycle and accompany their development

CRIF: International Credit Rating Agency based in Italy providing both solicited and unsolicited Corporate ratings.

Fedafin AG : is registered with the Swiss Financial Markets Authority and acts as rating provider to the Swiss stock exchange

Informa D&B is the Marketing, Financial and Business Information leading company in Spain, offering currently more than 3.7 million online ratings on Spanish companies

Informa is the Marketing, Financial and Business Information leading company in Portugal, offering currently more than 820K online ratings on Portuguese companies

JCR Eurasia is an international credit rating institution based in Turkey.

National Rating Agency (NRA) is one of the leading independent rating agencies in Russia. As of today National Rating Agency has assigned ratings to over 750 leading Russian and international companies.

RusRating is a credit rating agency based in Moscow, with sister agencies in Armenia and Kazakhstan. It is accredited with the Ministry of Finance of the Russian Federation.

Scope was founded as an independent rating agency in Berlin, Germany, in 2002. The company is specialized in ratings and analysis of SMEs, bonds, certificates and funds across Europe.

The Members of the Association have very different business models while assigning ratings. All are deeply rooted in their respective markets; enjoy a high market share and a good reputation with local investors