



HOUSE OF LORDS

EUROPEAN UNION COMMITTEE

Sub-Committee A (Economic and Financial Affairs and International Trade)

Credit Rating Agencies and EU Sovereign Debt

Call for Evidence

The House of Lords EU Economic and Financial Affairs and International Trade Sub-Committee, chaired by Lord Harrison, is launching an inquiry into credit rating agencies and their influence on sovereign borrowing. We invite you to contribute evidence to this inquiry.

Credit rating agencies have come under close scrutiny since the onset of the financial crisis. EU legislation has already been amended to give the newly created European Securities and Markets Authority regulatory authority over credit rating agencies.

More recently, though, attention has focused on the influence of credit rating agencies on sovereign borrowing. This follows their downgrading of the debt rating of Spain, Greece and Portugal at a time when the euro area is struggling to maintain market confidence. The European Parliament has called for special attention to be given to sovereign debt ratings and has suggested the creation of a European ratings foundation as a possible counterweight to the influence of the three largest US based credit rating agencies.

The aim of the inquiry is to investigate whether additional regulatory changes are needed to improve the relationship between credit rating agencies and sovereign debt. The inquiry will examine the origins of sovereign debt ratings and their implications for sovereign borrowing. It will assess whether an EU credit rating agency is a plausible option, or whether there are more desirable and practical solutions. The Committee will publish its report before the end of July 2011.

Particular questions raised to which we invite you to respond are as follows (there is no need for individual submissions to deal with all of the issues):

1) Credit rating agencies and sovereign debt

- What role do credit rating agencies perform?
- What is their purpose and role with regard to sovereign, as opposed to commercial, debt? How do CRAs determine their sovereign ratings, and who pays for these ratings? Is there an over-reliance on the judgement of CRAs?
- What market-based indicators could be used to evaluate sovereign debt instead of ratings issued by CRAs?
- Do financial markets overreact to a downgrading of sovereign debt by CRAs? Did CRAs fail to correctly rate certain EU countries in the run-up to the financial crisis? Have they continued to do so?
- What role, if any, did CRAs play in exacerbating the euro area sovereign debt crisis?
- Should the scope for private CRAs to rate sovereign debt be reduced or eliminated? If so, why, and how?

2) The regulatory framework for credit rating agencies

- Could the EU regulatory framework for CRAs be developed to improve the quality and transparency of ratings of sovereign debt?
- Should CRAs be required to give governments advance warning before publishing ratings of sovereign debt? What would be the pros and cons of such an approach?
- Should a common EU-level principle of civil liability for credit rating agencies be introduced? What alternatives might be adopted to make CRAs accountable for their opinions?
- What action might take place in the US in relation to CRAs and sovereign debt? What impact might US actions have on EU proposals in this area?

3) A need for European credit rating agencies

- Does the credit rating market suffer from being dominated by three major firms? Should more competition be created in the field of credit ratings, and how might this be done? Would the existence of more competition contribute to a better quality of ratings and reduce volatility in the sovereign bond markets?
- What are the potential benefits and downsides of creating a European Credit Rating Agency? Might there be any unintended consequences from its creation?
- What might the structure of an EU-based credit rating agency be, and how would it be established?
- How would the ratings offered by an EU based CRA differ from those provided by the US based CRAs in terms of content and market credibility?

4) Alternative proposals

- Should the European Central Bank be charged with rating public debt and bonds instead of credit-ratings agencies?
- Should the use of internal credit ratings, particularly by large financial institutions, be encouraged? If so, how?

We also would welcome your views on any other aspect of this topic. Written submissions need not address all questions

Interested parties are invited to submit a concise statement of written evidence to this inquiry by Friday 6 May 2011.

Guidance to those submitting written evidence

Evidence should be submitted to Mr Antony Willott, Committee Office, House of Lords, London SW1A 0PW, fax 020 7219 6715. The deadline for written evidence is 6 May 2011.

Short submissions are preferred. A submission longer than six pages should include a one-page summary.

Evidence must be clearly printed or typed on single sides of A4 paper, unstapled.

Paragraphs should be numbered. If drawings or charts are included, these must be black-and-white and of camera-ready quality. Evidence should be signed and dated, with a note of the

author's name and status, and of whether the evidence is submitted on an individual or corporate basis. Only one copy is required. All submissions will be acknowledged promptly. The evidence should also be made available in electronic form as a Word document. This should be sent by e-mail to willotta@parliament.uk, and copied to yusufs@parliament.uk.

Evidence becomes the property of the Committee, and may be printed or circulated by the committee at any stage. If your evidence is not printed, it will in due course be made available to the public in the Parliamentary Archives. Once you have received acknowledgement that the evidence has been received, you may publicise or publish your evidence yourself, but in doing so you must indicate that it was prepared for the Committee. If you do this parliamentary privilege will not apply to your own publication.

Personal contact details supplied to the Committee will be removed from evidence before publication and from the copy deposited in the Archives. However, personal contact details will be retained by the Committee Office and used for specific purposes relating to the Committee's work, for instance to seek additional information or to send copies of the Committee's report.

Persons who submit written evidence, and others, may be invited to give oral evidence. Oral evidence is usually given in public at Westminster, broadcast in audio and often video format on the internet, and transcripts are published. Persons invited to give oral evidence will be notified separately of the procedure to be followed and the topics likely to be discussed.

Written evidence will not normally be printed with the Committee's report, but published online and deposited in the Parliamentary Archives.

Substantive communications to the Committee about the inquiry should be addressed through the Clerk or the Chairman of the Committee, whether or not they are intended to constitute formal evidence to the Committee.

This is a public call for evidence. Please bring it to the attention of other groups and individuals who may not have received a copy direct.

You may follow the progress of the inquiry from the Weekly Bulletin of House of Lords select committees. This can be found on the UK Parliament website, at www.parliament.uk/hleua.