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Committee of European Securities
Regulators (CESR)
11-13, Avenue de Friedland
75008 Paris

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**AFG COMMENTS REGARDING CESR'S CONSULTATION ON FACT FINDING
EXERCISE OF THE USE IN THE EUROPEAN UNION OF RATINGS ISSUED BY
THIRD COUNTRIES CRAs**

Dear all,

The Association Française de la Gestion financière (AFG)¹ welcomes the opportunity to comment on the fact finding exercise of the use in the European Union of ratings issued by third countries CRAs in the context of the recently approved EU Regulation on CRAs.

As users of ratings, on behalf of their clients - the asset owners, AFG members take particular attention to the regulatory context of Credit Rating Agencies. AFG has always strongly supported a robust framework regulation of the CRAs so as to restore confidence in CRAs and improve transparency in the process of ratings determination, dissemination and re-grading.

¹ The Association Française de la Gestion financière (AFG)¹ represents the France-based investment management industry, both for collective and discretionary individual portfolio managements.

Our members include 409 management companies. They are entrepreneurial or belong to French or foreign banking or insurance groups.

AFG members are managing 2400 billion euros in the field of investment management, making in particular the French industry *the leader in Europe in terms of financial management location* for collective investments (with nearly 1400 billion euros managed from France, i.e. 21% of all EU investment funds assets under management), wherever the funds are domiciled in the EU, *and second at worldwide level after the US*. In the field of collective investment, our industry includes – beside UCITS – the employee savings schemes and products such as regulated hedge funds/funds of hedge funds as well as a significant part of private equity funds and real estate funds. AFG is of course an active member of the European Fund and Asset Management Association (EFAMA) and of the European Federation for Retirement Provision (EFRP). AFG is also an active member of the International Investment Funds Association (IIFA).

The current consultation focuses on the use of ratings issued by third countries CRAs by EU financial entities for regulatory purpose. As EU financial entities will only be able to use ratings issued by third country CRAs that have been subjected to one of the two mechanisms (endorsement, if the CRA is of systemic importance, or certification if the CRA is without systemic importance), the quality of the equivalence assessment of the targeted third countries regulatory regimes is critical.

Indeed, the equivalence appraisal is a delicate undertaking and should be performed with the aim of reducing as much as possible uncertainty for direct users and for the market in general. AFG would like to benefit from the occasion to reaffirm some principles on the subject:

- A thorough analysis of the use of ratings is to be performed so that no disruption is caused to the users of ratings after the transition period.
- The international nature of the ratings' use and organisation is to be taken into consideration so as to have as much as possible a consistent regulatory approach between EU and third countries issued ratings.
- Considering the increasing key role played by credit rating agencies in the financial markets, the third countries' regulatory regimes should be carefully analysed before cooperation arrangements are set up. Even in the case of CRAs perceived as devoid of systemic importance, the integrity and the quality of their credit ratings process is essential to investor confidence.
- One agrees that investors are responsible for the use they make of the ratings within their own process of reaching investment decisions. If ratings are not investment recommendations as such (and indeed we are opposed to any mandatory use of ratings), they provide nonetheless opinions on the creditworthiness of analysed entities and clearly form a meaningful element in the investment research process. Therefore, asset managers must be able to rely on clear, fair and unbiased information when taking their investment decisions. It is therefore crucial to ensure that ratings under the scope of this consultation are issued by properly authorised and supervised CRAs. The third country regulation must impose robust substantive requirements on CRA processes that secure the quality and integrity of ratings. Of course, proper disclosures and warning statements should accompany all these regulatory efforts in order to foster understanding of ratings and prevent encouraging over-reliance on ratings.
- In the light of the recent financial market turmoil, we need not remind that a high degree of priority should be accorded to the avoidance of conflicts of interest.
- Any equivalence appraisal should be decided at the European level.
- Finally, given the "summer schedule" of this CESR consultation, we might come back to you with additional comments in the coming weeks.

If you need any further information, please don't hesitate to contact myself at +33.1.44.94.94.29 (p.bollon@afg.asso.fr) or Adina Gurau Audibert, at +33.1.44.94.94.31 (a.gurau.audibert@afg.asso.fr).

Sincerely Yours,
Pierre Bollon