

---

# **2004 CREDIT RATING AGENCY SURVEY**

## **Report of Survey Results**

*October 2004*



Association for Financial Professionals  
7315 Wisconsin Avenue, Suite 600 West, Bethesda, MD 20814  
301.907.2862 Fax 301.907.2864 [www.AFPonline.org](http://www.AFPonline.org)



## Introduction

Respondents to the Association for Financial Professionals' (AFP) 2004 Rating Agency Survey continue to be concerned about the quality and timeliness of credit ratings and believe the Securities and Exchange Commission (SEC) should have a key role in promoting competition among credit rating agencies. A third of financial professionals indicate that their company's ratings are inaccurate, while only 42 percent believe changes in their organization's ratings are made on a timely basis. Most financial professionals believe that the SEC should take a greater role in overseeing the credit rating agencies and promote entry into the market. Further, survey respondents believe the SEC should require documentation of the internal controls that the agencies have to protect from potential conflicts and require credit rating agencies (CRAs) to document and implement policies and procedures to prevent the disclosure of non-public information.

For nearly 100 years, rating agencies have been providing opinions on the creditworthiness of issuers of debt to assist investors. The SEC and banking regulators also rely on ratings from rating agencies to gauge companies' capital adequacy. In 1975, the SEC recognized Moody's, Standard & Poor's, and Fitch, the three major rating agencies in existence at that time, as the first nationally recognized statistical rating organizations (NRSRO). The SEC and other regulators use the ratings from the NRSROs to determine whether certain regulated investment portfolios, including those of mutual funds, insurance companies and banks, meet established credit quality standards. As a result, companies that hope to have their debt purchased by these portfolios must have a rating from an NRSRO. From 1975 and 1992, the SEC recognized four other rating agencies, but each of these entrants subsequently merged with Fitch. No new agencies were recognized by the SEC from 1992 until April 2003, when Dominion Bond Rating Service received recognition from the SEC, becoming the fourth NRSRO.

Some market participants have argued that the NRSROs did not adequately warn investors of the impending failure of Enron, Worldcom, Parmalat, and other companies. For example, in 2001, the rating agencies continued to rate the debt of Enron as "investment grade" days before the company filed for bankruptcy. These failures occurred despite the fact that CRAs have access to non-public information because of their exemption from Regulation Fair Disclosure (Reg FD).

In September 2002, AFP surveyed senior level corporate practitioners and financial industry service providers on their views regarding the quality of the NRSROs' ratings, the role the SEC should take in regulating the agencies, and the impact additional competition may have on the marketplace for ratings information. In that survey, many financial professionals indicated that the analyses generated by the NRSROs were neither accurate nor timely.

In September 2004, AFP once again surveyed senior level financial professionals regarding the accuracy and timeliness of the NRSROs' analyses and on the potential role regulators may have in promoting competition among credit rating agencies. The results of that survey are the basis for this report.

Key findings of the 2004 AFP Rating Agency Survey include:

- Eighty-seven percent of responding organizations with debt indicate that credit providers require them to obtain and maintain a rating from at least one of the four NRSROs.
  - Only nine percent of financial professionals believe that there would be no adverse impact on their organization or its investors if their organization ceased soliciting a rating from an NRSRO with which the organization is dissatisfied.
- Many financial professionals believe that the ratings of their organizations are either inaccurate or are not updated on a timely basis.
- A third of corporate practitioners believe the ratings on their organization's debt are inaccurate.
  - Only 42 percent of corporate practitioners from organizations with rated debt believe that changes in their organization's financials are reflected in their ratings in a timely manner.
- Fifty-two percent of financial professionals indicate that the cost of credit ratings has increased by at least 11 percent over the past three years, including 19 percent that indicate that costs have increased at least 25 percent over that time period.
- While many responding organizations are confident in the accuracy of the ratings they use for investments, they are less confident in the timeliness of the same ratings.
  - Three out of five organizations believe the ratings that they use for investment decisions are accurate.
  - Only 38 percent of the same organizations believe the ratings that they use for investment decisions are timely.
- Financial professionals believe the Securities and Exchange Commission (SEC) should take a greater role in overseeing the credit rating agencies along with encouraging greater competition in the field.
  - Fifty-nine percent of respondents agree that SEC should take a greater role overseeing the credit rating agencies.
  - A similar percentage of respondents believe that the SEC should encourage greater competition among credit rating agencies.
  - Seventy percent of financial professionals agree that the SEC should establish and clearly communicate the criteria necessary for a credit rating agency to achieve NRSRO status.
  - Seventy-five percent of financial professionals also believe that the SEC should periodically review credit rating agencies after they receive NRSRO status to ensure that they continue to meet the recognition criteria.
  - Ninety-one percent of financial professionals believe credit rating agencies should document the internal controls that they have in place to protect against potential conflicts of interest between assigning ratings and selling ratings and offering ancillary services for sale.
  - Eighty-three percent of financial professionals believe that regulators should require rating agencies to document and implement policies and procedures to prevent the disclosure of non-public information.

## Survey Findings

Credit ratings affect nearly all organizations regardless of whether an organization issues debt. While 70 percent of survey respondents work for an organization that has rated debt, nearly every respondent works for an organization that uses ratings from NRSROs to make investment decisions.

### Issuers of Debt

Despite that fact that organizations are able to choose from four NRSROs in seeking ratings, most organizations with rated debt tend to solicit ratings from only two of the four NRSROs. Among the four NRSROs, most businesses that issue debt receive a rating from both Standard & Poor's and Moody's (96 and 93 percent, respectively). Only 37 percent of respondents receive a rating from Fitch, while Dominion Bond Rating Service has a very low market penetration (four percent).

#### Market Penetration of Rating Agencies Among Organizations with Rated Debt (Percentage of Respondents from Organizations with Rated Debt)

Standard & Poor's	96%
Moody's	93
Fitch	37
Dominion Bond Rating Service	4

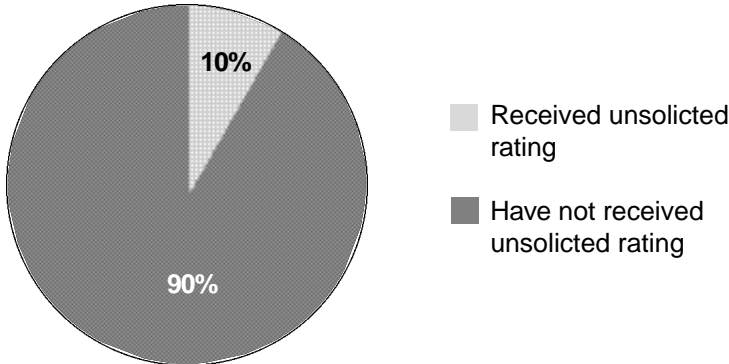
While many organizations are able to issue debt without a rating from an NRSRO, non-rated debt is typically subject to higher interest rates and fees. As a result, many organizations are reluctant or unable to issue debt without an NRSRO. In addition to investor requirements, 87 percent of responding organizations with debt indicate that credit providers also require them to obtain and maintain a rating from at least one of the four NRSROs. Specifically, more than three-quarters of organizations indicate that their credit providers require them to obtain and maintain ratings from either Standard & Poor's, Moody's or both. Few credit providers require organizations to use either Fitch or Dominion Bond Rating Service.

#### Rating Agencies from Which Credit Providers Require Organizations to Obtain and Maintain a Credit Rating (Percentage of Respondents)

Standard & Poor's	79%
Moody's	77
Fitch	8
Dominion Bond Rating Service	2

In some cases, organizations receive ratings from credit rating agencies even if they do not solicit ratings from the agency. Some critics argue that these ratings are not accurate (and tend to be lower than received elsewhere) given the fact that the credit rating agency does not have access to company officials or financials. Some market participants have also expressed concern that these unsolicited ratings, when issued by NRSROs that typically charge issuers for ratings, could be abused to coerce issuers into paying for rating agency services. Ten percent of respondents indicate that their organization has been the recipient of at least one unsolicited rating from one of the four NRSROs from which the organization does not already solicit a rating.

**Organizations that Have Received an Unsolicited Rating from Rating Agency that Previously Sought Business**



**Accuracy and Timeliness**

Thirty-four percent of corporate practitioners believe the ratings on their organization’s debt are inaccurate. Fifty-three percent of respondents believe the ratings of their organization’s debt are accurate. Two years earlier, 29 percent of respondents indicated that they felt their ratings were inaccurate, with 65 percent having a more favorable impression of the ratings. This seems to indicate a continued loss of confidence in the NRSROs.

There is a natural tension between issuers and credit rating agencies since issuers often believe they deserve a higher rating than granted. However, many respondents from organizations that were recently upgraded, as well as those who were recently downgraded, believe the ratings for their organizations are inaccurate. Half of the organizations that have recently experienced a rating downgrade believe their organization’s ratings are inaccurate. Thirty-six of respondents from organizations that have recently *benefited* from a rating upgrade feel the ratings are inaccurate; while 30 percent of organizations with stable ratings believe those ratings are inaccurate.

**Agreement on Whether Organization's Ratings Are Accurate**  
(Percentage Distribution)

	All Respondents	Recently Upgraded Organizations	Unchanged Ratings	Recently Downgraded Organizations
Strongly agree	17%	15%	21%	9%
Somewhat agree	36	46	43	24
Neither	13	3	6	17
Somewhat disagree	25	27	23	33
Strongly disagree	9	9	7	17

Most respondents working for organizations that have rated debt do not believe the ratings reflect changes in the organization creditworthiness in a timely fashion. Only 42 percent of corporate practitioners from organizations with rated debt believe that changes in their organization's ratings have been timely. Both respondents from organizations that have experienced either rating downgrades or upgrades share similar views. Only 42 percent of respondents from organizations that have recently benefited from ratings upgrades believe the changes were made in a timely fashion, while just 36 percent of respondents from organizations that have recently experienced a downgrade in their ratings feel the same.

**Agreement on Whether Organization's Ratings Are Timely**  
(Percentage Distribution)

	All Respondents	Recently Upgraded Organizations	Unchanged Ratings	Recently Downgraded Organizations
Strongly agree	13%	12%	17%	9%
Somewhat agree	29	31	30	27
Neither	17	9	21	9
Somewhat disagree	29	36	20	40
Strongly disagree	12	12	12	15

## Quality of Rating Agency Analysts and Understanding of Methodology

While most financial professionals working for organizations with rated debt have confidence in the rating agencies' knowledge of their organization, one out of five respondents (20 percent) indicate that rating agency analysts do not meet with the organization on a frequent basis or believe the analysts who are assigned to their organization are not well qualified. Further, 22 percent of respondents do not believe the analysts assigned to analyze their organization's creditworthiness are well qualified to do the job. Sixty-one percent of respondents from rated organizations indicate that they meet with rating agency analysts on a frequent basis. A similar proportion of respondents (60 percent) believe that the analysts who are assigned to their organization are well qualified to analyze the organization's creditworthiness.

### Evaluation of Rating Agencies' Analysts and Their Understanding of Organizations (Percentage Distribution)

	Analysts Meet with My Organization on a Frequent Basis	Agencies' Analysts Assigned to My Organization Are Well Qualified to Analyze Organization's Creditworthiness
Strongly agree	25%	20%
Somewhat agree	36	40
Neither	19	18
Somewhat disagree	17	19
Strongly disagree	3	3

Only a small majority of financial professionals fully understand the methodologies used by the NRSROs or know how to appeal ratings. Just 57 percent of financial professionals understand the methodologies used by the rating agencies, with 28 percent of survey respondents indicating that they do not understand. About half of respondents know how to appeal the rating their organization has been assigned, with 30 percent indicating that they are unaware of the appeal process.

On the other hand, most respondents indicate that they understand the steps necessary to improve ratings. Two-thirds of respondents from rated organizations know the steps necessary to improve ratings, with only 17 percent indicating they do not know how to improve their organization's ratings.

**Corporate Practitioners' Evaluation of Their Understanding  
of Rating Agency Methodology and the Appeals Process**  
(Percentage Distribution)

	Understand the Methodology Used by the Agencies	Understand How to Appeal the Rating Assigned to My Organization	Understand the Steps Necessary to Improve My Organization's Ratings
Strongly agree	9%	9%	15%
Somewhat agree	48	40	52
Neither	15	21	17
Somewhat disagree	20	21	12
Strongly disagree	8	9	5

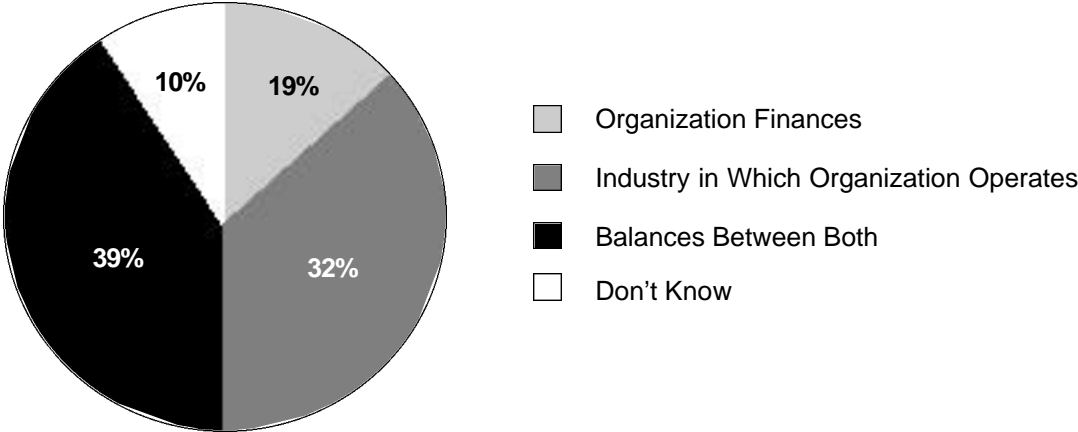
Regardless of whether they express any confidence in the quality of analysis provided by the NRSROs, most financial professionals believe they have little choice but to solicit a rating from these agencies. Only nine percent of financial professionals believe that if their organization ceased soliciting ratings from an NRSRO that there would be no adverse impact on their organization or its investors. Nearly seven out of ten (69 percent) respondents believe their organization and/or their investors would be negatively affected should it choose to no longer to solicit a rating from an NRSRO.

**Agreement on Whether an Organization that Is Dissatisfied with a  
Credit Rating Agency Can Cease to Solicit a Rating from the Agency with  
No Adverse Impact on the Organization or its Investors**  
(Percentage Distribution)

Strongly agree	1%
Somewhat agree	8
Neither	22
Somewhat disagree	36
Strongly disagree	33

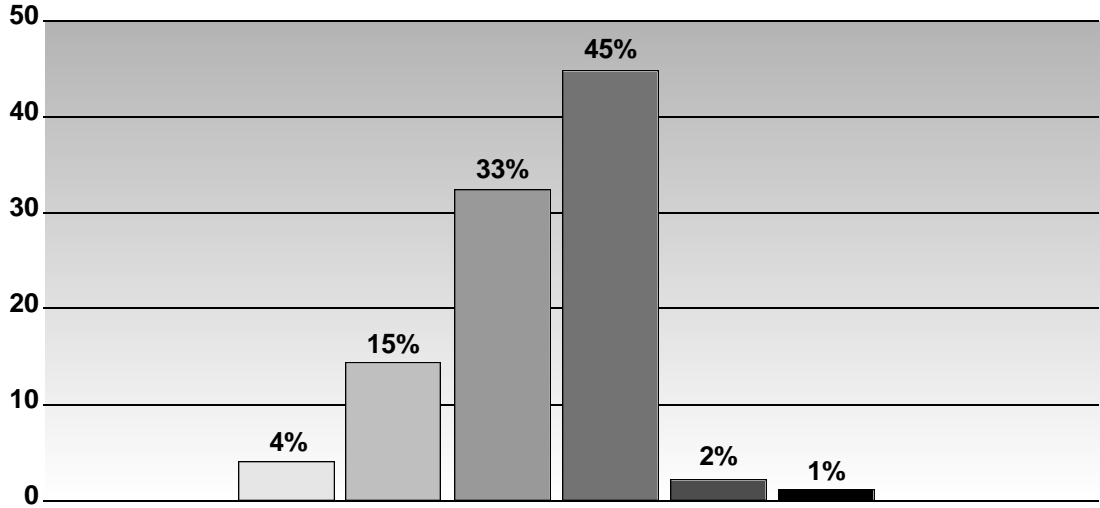
A common criticism of credit ratings is that they tend to be more reflective of the state of the industry in which an organization operates rather than the organization's specific ability to service and ultimately repay its debt. For example, some utilities contended that their ratings during 2001 and 2002 reflected the troubles of Enron and California-based utilities rather than their own specific financial results and situation. A third of respondents believe their organization's ratings are more reflective of the industry in which it operates rather than the organization's specific ability to service and repay debt. Another 39 percent believe the organization's industry plays a nearly equal role with the organization's finances in its ratings. Only 19 percent of respondents believe the organization's specific finances play the dominant role in determining its ratings.

**Opinions on Whether Ratings Are More Reflective of  
Organization's Finances or the Industry in Which it Operates**  
(Percentage Distribution)



Over the past three years, when general prices have risen by about seven percent, most organizations indicate the cost of obtaining a credit rating has increased significantly more. Fifty-two percent of financial professionals indicate that the average cost of credit ratings has increased by at least 11 percent over the past three years. Specifically, 33 percent indicate that the average costs for ratings have increased between 11 and 24 percent, 15 percent experienced average rate increases of between 25 and 50 percent, while four percent indicate that their organization's cost for credit ratings have increased by more than 50 percent. Forty-five percent have experienced relatively small changes in their average costs for credit ratings of plus/minus ten percent.

**Change in Organization's Average Cost of Obtaining a  
Credit Rating Over the Past Three Years  
(Percentage Distribution)**



- Increased by more than 50%
- Increased by 25-50%
- Increased by 11-24%
- No significant change
- Decreased by 11-24%
- Decreased by 25-50%

## Investment Decisions

Similar to organizations seeking to issue debt, most organizations rely primarily on ratings from Standard & Poor's and Moody's when making investment decisions. Ninety-three percent of responding organizations use Standard & Poor's when making investment decisions, while 91 percent of organizations use Moody's. Forty-one percent of responding organizations use Fitch, while just six percent use Dominion Bond Rating Service when making investment decisions. Only four percent of responding organizations do not use any of the four NRSROs when making investment decisions.

### Use of NRSROs for Investment Decisions (Percentage of Respondents)

Standard & Poor's	93%
Moody's	91
Fitch	41
Dominion Bond Rating Service	6
None	4

While many responding organizations are confident in the accuracy of the ratings of the organizations in which they invest, they are less confident in the timeliness of the same ratings. Three out of five organizations believe the ratings that they use for investment decisions are accurate. Only 38 percent of these organizations believe the ratings that they use for investment decisions are timely.

### Agreement by Investors that Credit Ratings are Accurate and Timely (Percentage Distribution)

	Ratings are accurate	Ratings are timely
Strongly agree	9%	5%
Somewhat agree	51	33
Neither	31	38
Somewhat disagree	7	19
Strongly disagree	1	4

Rating agencies have been providing opinions on the creditworthiness of issuers of debt to assist investors for over 100 years. Consistent with their history, nearly half (48 percent) of respondents believe that credit ratings favor the interests of investors in debt. Fourteen percent believe the credit ratings favor the interests of issuers of debt, while 12 percent believe the ratings favor investments banks. Nearly a quarter of respondents (22 percent) believe credit rating agencies equally balance the interests of all stakeholders when developing their ratings.

**The Interests Credit Ratings Favor  
(Percentage Distribution)**

Investors in debt	48%
Issuers of debt	14
Investment banks	12
Commercial banks	3
Agencies equally balance the interests of all stakeholders	22

**Regulation**

Financial professionals believe that the Securities and Exchange Commission (SEC) should take a greater role in overseeing the credit rating agencies along with encouraging greater competition in the field. Fifty-nine percent of respondents agree that SEC should take a greater role overseeing the credit rating agencies. A similar percentage of respondents believe that the SEC should be encouraging greater competition among credit rating agencies—including, greater competition among the four current NRSROs and possibly giving NRSRO status to other qualified rating agencies.

**Agreement on Whether the Securities and Exchange Commission  
Should Take a More Active Role in Overseeing and  
Encouraging Competition Among Credit Rating Agencies  
(Percentage Distribution)**

	More Active in Overseeing	More Active Encouraging Competition
Strongly agree	14%	17%
Somewhat agree	45	42
Neither	23	26
Somewhat disagree	13	11
Strongly disagree	5	4

Financial professionals believe that the SEC should improve the process by which the NRSRO designation is granted and institute ongoing oversight of credit rating agencies that have achieved NRSRO status. Seventy percent of financial professionals agree that the SEC should establish and clearly communicate the criteria necessary for a credit rating agency to achieve NRSRO status. Today, once a credit rating agency meets NRSRO status, there is no ongoing review to ensure the agency continues to meet the recognition criteria. Seventy-five percent of financial professionals believe that the SEC should review credit rating agencies that have attained NRSRO status to ensure that they continue to meet the recognition standard.

**Agreement on Whether the Securities and Exchange Commission Should Establish and Clearly Communicate Recognition Criteria and Should Ensure that Recognized Agencies Continue to Meet the Recognition Criteria**  
(Percentage Distribution)

	SEC Should Establish and Clearly Communicate Recognition Criteria	SEC Should Ensure that Recognized Agencies Continue to Meet the Recognition Criteria
Strongly agree	27%	26%
Somewhat agree	43	49
Neither	18	16
Somewhat disagree	8	7
Strongly disagree	4	2

Some credit rating agencies sell consulting services to many of the same organizations to which they issue credit ratings. Some critics of credit rating agencies contend that the provision of these other services may be in conflict with the core mission of the agencies—that is, providing unbiased, accurate and timely analysis of the creditworthiness of the debtor. Further, other critics have expressed concern about the conflict of interest of receiving revenues directly from the issuers of debt. Ninety-one percent of financial professionals believe credit rating agencies should document the internal controls they have in place to protect against potential conflicts of interest.

**Agreement on Whether Credit Rating Agencies Should Document Their Internal Controls Designed to Protect Against Conflicts of Interest Between Assigning Ratings and Generating Revenue from Ratings or Other Ancillary Services**  
(Percentage Distribution)

Strongly agree	53%
Somewhat agree	38
Neither	8
Somewhat disagree	1
Strongly disagree	*

In order to more accurately analyze the creditworthiness of debtors, rating agencies are exempt from Regulation Fair Disclosure (Reg FD), which prohibits companies from sharing information with most analysts if it is not generally available to the public. As a result, rating agencies frequently have access to non-public information. In the wrong hands, this valuable information can lead to illegal trading or other inappropriate uses. In fact, in July 2004, federal prosecutors and the SEC charged a former analyst working for an NRSRO with informing family members and former business associates about the upcoming sale of a company that he analyzed for the credit rating agency. Eighty-three percent of financial professionals believe that regulators should require rating agencies to document and implement policies and procedures to prevent the disclosure of non-public information.

**Agreement on Whether Regulators Should Require Rating Agencies to Document and Implement Policies and Procedures to Prevent the Disclosure of Non-Public Information**  
(Percentage Distribution)

Strongly agree	48%
Somewhat agree	35
Neither	14
Somewhat disagree	1
Strongly disagree	2

### **Conclusion**

Financial professionals continue to be concerned about the quality and timeliness of credit ratings and believe the SEC has a key role in promoting competition among credit rating agencies. A third of financial professionals indicate that their organization's ratings are inaccurate, while only 42 percent believe changes in their organization's ratings are done on a timely basis. Most financial professionals believe that the SEC should take a greater role in overseeing the credit rating agencies and promote entry into the market. Further, survey respondents believe the SEC should require documentation of the internal controls the agencies have to protect from potential conflicts and require rating agencies to document and implement policies and procedures to prevent the disclosure of non-public information.

## **Appendix A: Methodology**

In September 2004, the Association for Financial Professionals e-mailed a 15 question survey to about 2,000 practitioner members of AFP holding senior job titles. 193 surveys were returned. AFP also sent the same survey to senior level financial professionals who are not currently members of the Association, producing an additional 37 surveys.

The respondents to this survey mimic those of the demographic profile of AFP's membership. The typical respondent works for an organization with annual revenues slightly greater than \$1 billion, similar to that of AFP's corporate practitioner membership.

## **Appendix B: Background**

For nearly 100 years, credit rating agencies (CRAs) have been providing opinions on the creditworthiness of issuers of debt to assist investors. In 1909, Moody's published the first bond ratings in the U.S. for railroad bonds. Poor's began issuing ratings in 1916, with Standard Statistics and Fitch Publishing following in 1922 and 1924, respectively. In 1941, Standard Statistics and Poor's merged into Standard & Poor's. These ratings were intended as tools for the investing public, which provided revenue to the rating agencies by purchasing their published reports.

Since their beginning, the importance of credit ratings to investors, issuers, and other participants in the securities markets has increased significantly. This is in part due to the dramatic increase in the number of debt issuers and issues. Perhaps more importantly, the complexity of many financial products, such as asset-backed and derivative securities, has made it more difficult for investors to assess credit risk on their own. The role of credit ratings has also expanded to other countries as a result of the globalization of financial markets.

Regulatory requirements have also contributed to the increased importance of CRAs. Many regulators, responsible for ensuring the safety and soundness of banks, brokers, insurers and mutual funds, found the process of assessing risk in these portfolios to be costly and inaccurate. Rather than continue to conduct these individual analyses on their own, regulators recognized that the private market was already rating bonds at no cost to the government. Regulators began to rely on the information provided by these ratings to fulfill their regulatory obligations and required regulated entities to report the ratings of the bonds in which they invested. Starting around 1970, Moody's and Standard & Poor's began to charge issuers for bond ratings rather than relying on publication revenue from investors and other market participants as their primary source of income.

Because of its increased reliance on credit ratings, the SEC in 1975 recognized Moody's, Standard & Poor's, and Fitch, the three major credit rating agencies in existence at that time, as the first nationally recognized statistical rating organizations (NRSRO). The SEC originally recognized these three firms for the purpose of determining capital charges on debt securities for broker-dealers. Over time, the NRSRO concept was also incorporated into new regulations related to the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940. Other regulators, including state regulators, have followed suit and

adopted the NRSRO designation in their rules. Only ratings from an NRSRO are recognized in many of these regulations. As a result, companies that hope to have their debt purchased by large institutional investors, including banks, mutual funds, and insurers, must have a rating from an NRSRO.

The SEC considers many criteria for NRSRO recognition. According to testimony by SEC Commissioner Isaac C. Hunt, Jr. before the Senate Committee on Governmental Affairs in March 2002, the single most important criterion that the SEC considers when determining whether a rating agency may be considered a nationally recognized statistical rating organization “is that the rating agency is nationally recognized.” Hunt also said that this “means the rating organization is widely accepted in the United States as an issuer of credible and reliable ratings by the predominant users of securities ratings.” The SEC also reviews the operational capability and reliability of each rating organization, including their rating procedures, organizational structure, financial resources, staffing, independence from the companies it rates, and internal controls.

Between 1975 and 1992, the SEC recognized only four new rating agencies: Duff and Phelps, McCarthy Crisanti and Maffei, IBCA, and Thomson BankWatch. Each of these entrants has subsequently merged with Fitch, leaving only the original three agencies. No new agencies had been recognized since 1992 until the Dominion Bond Rating Service received NRSRO status in April 2004. Several rating organizations have sought the NRSRO designation in recent years with little success. In 1998, the U.S. Department of Justice’s Antitrust Division submitted comments to the SEC stating its belief that the requirements to become an NRSRO create an anti-competitive barrier to entry for new credit rating agencies.

Credit rating agencies play an important role in the efficient operation of global capital markets. In addition to any credit analysis done internally, investors depend on the CRAs to analyze public and non-public information the agency to form a meaningful assessment of the creditworthiness of the company. These ratings, which are commonly paid for by the issuers, are used by individuals, professional investment managers, and corporate finance professionals when selecting securities for themselves or their organizations and by financial institutions when determining whether to lend to a prospective borrower and, if so, at what terms. CRAs also play an important role for companies when evaluating counterparties for financial transactions, in evaluating actual or potential suppliers or customers for non-financial goods and services, and in evaluating partners, collaborators, or joint venture prospects.

Debt issuers expect the CRAs to understand the company’s finances, strategic plans, competitive environment and any other relevant information about the company in order to issue ratings that:

- Allow the company to place securities at terms that are reflective of its relative creditworthiness;
- Allow others that deal with the issuer to improve their assessment of the issuer as a potential trading partner; and
- Are a valuable part of the issuer’s external communications with the markets.
- In many jurisdictions, ratings are also used to determine regulatory capital requirements and permitted investments.

Some market participants have criticized the rating agencies, which are given enhanced access

to corporate executives and financial information, for failing to warn investors of problems at Enron, WorldCom, Parmalat and other companies that later declared bankruptcy. Congress joined the debate and mandated action by regulators.

Efforts to improve investor and issuer confidence in the CRAs have been proceeding on multiple fronts. In the United States, the effort has focused primarily on the way in which the Securities and Exchange Commission (SEC) regulates the CRAs that it recognizes as nationally recognized statistical rating organizations (NRSRO). Since November 2002, the SEC and the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the House Committee on Financial Services each have held a series of hearings on the quality of the analysis provided by the rating agencies. During the summer of 2003, the SEC released a Concept Release titled "Rating Agencies and the Use of Credit Ratings under the Federal Securities Laws." In its comment letter to the concept release, AFP called on the SEC to remove artificial barriers to entry into the credit ratings market. AFP also recommended that the SEC periodically review each NRSRO to ensure that they continue to be issuers of credible and reliable ratings and have in place effective internal controls. AFP commented that the SEC should minimize further regulation and allow market forces to determine acceptable standards for many practices. The SEC has yet to release a final version of the Concept Release.

To address many of the questions raised by market participants, the Association for Financial Professionals in April of this year, along with treasury associations from the United Kingdom and France, released an Exposure Draft of a Code of Standard Practices for Participants in the Credit Rating Process. The Code of Standard Practices for Participants in the Credit Rating Process is intended to improve investor and issuer confidence in the credit rating agencies and the judgments they promulgate in their reports. The Code includes recommendations for regulators, credit rating agencies and issuers of debt.

The Code includes recommendations to improve the transparency of the rating process, protect non-public information that is provided to credit rating agencies, protect against conflicts of interest, address the issue of unsolicited ratings, and improve communication with issuers and other market participants.

Regulatory recommendations focus on the credibility and reliability of ratings, transparency in the rating agency recognition process and improving ongoing regulatory oversight of approved rating agencies. Regulatory recommendations also include removing barriers to competition in the credit rating agency marketplace.

Recognizing that the credibility and reliability of credit ratings is heavily dependent on issuers providing accurate and adequate information to the credit ratings agencies, the Issuer Code of Standard Practices outlines issuer obligations in the credit rating process. These obligations are intended to improve the quality of the information available to the credit rating agencies during the initial rating process and on an ongoing basis, and to ensure that issuers respond appropriately to communications received from credit rating agencies.

---

## **Other Recent Reports from AFP Research**

For more research from the Association for Financial Professionals, visit our Web site at [www.AFPonline.org](http://www.AFPonline.org). See below for a sampling of recent surveys.

### **2004 Credit Access Survey**

Financial professionals participated in this 13-question survey that measured the prevalence and impact of commercial banks linking credit to the purchase of other financial services and the resultant actions taken by companies in this environment. For the third time in three years, financial professionals—especially those from large companies—reported that their companies have been denied credit or had credit terms changed by a commercial bank because the company did not award other financial business. A significant number of survey respondents note that their company has been subject to activities that the Federal Reserve indicates would violate Section 106 of the Bank Holding Company Act. Further, many companies continued to report that the pressure to award business has increased over the past year. Financial professionals also were concerned that, as a result of consolidation among large commercial banks, their companies have fewer banks that are willing and able to meet their company's credit needs.

### **2004 Electronic Payments Survey**

Business use of the U.S. payments system is at a crossroads. Although the volume of electronic payments by consumers is growing rapidly nationwide, more than 80 percent of business-to-business payments continue to be made by paper check. Financial professionals participated in this 22-question survey that asked about their organization's use of electronic payments to send and receive business-to-business payments. The survey also asks the barriers to increased use of electronic payments and solutions that would make electronic payments more efficient and cost-effective for their organizations.

### **Evolving Role of Treasury Survey**

For many companies, the Treasury department bears little resemblance to what it looked like just a few years ago. Transactions that were previously conducted by numbers of employees are now automated or outsourced, and treasury professionals are being challenged to apply their existing skills to strategic activities that enhance organizational financial performance. Many companies are also demanding that treasury professionals develop new skills and use those skills in areas outside the traditional domain of treasury. Financial professionals participated in this a ten-question survey to define what is the "evolving role of treasury."

---

All AFP Research reports are available online at [www.AFPonline.org/pub/res/research\\_reports.html](http://www.AFPonline.org/pub/res/research_reports.html)  
For more information call **301.907.2862**.



### **About the Association for Financial Professionals**

The Association for Financial Professionals (AFP) headquartered in Bethesda, Maryland, supports more than 14,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.

General Inquiries    [AFP@AFPonline.org](mailto:AFP@AFPonline.org)

Web Site            [www.AFPonline.org](http://www.AFPonline.org)

Phone                301.907.2862