



**COUNCIL OF
THE EUROPEAN UNION**



Council Conclusions on Transparency and Rating agencies

*2882nd ECONOMIC and FINANCIAL AFFAIRS Council meeting
Brussels, 8 July 2008*

The Council adopted the following conclusions:

"The Council has reviewed recent market developments and progress made in the implementation of the road map on the financial market turmoil concerning market transparency and the role of rating agencies.

1. Transparency

The Council recalls that prompt and full disclosure by banks and other financial institutions of their exposures to distressed assets and off-balance sheet vehicles and of their write-downs and losses is essential to bring back confidence in the markets. In this respect, the Council underlines that the upcoming mid-year results need to be as comprehensive, legible and comparable as possible.

The Council

- welcomes CEBS' reports, issued mid June 2008, on banks' transparency on activities and products affected by the recent market turmoil and on issues regarding the valuation of complex and illiquid financial instruments,
- takes note of the need to enhance consistency of banks' disclosure practices, as well as of the valuation of exposures and their accounting,
- welcomes the guidance provided by CEBS,

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- calls on banks to implement these guidelines, in a way consistent with their exposures and involvement in the activities affected by the crisis, and
- invites CEBS and supervisors to monitor this implementation following the publication of banks' mid-year results and to report back to the FSC/EFC and Ecofin in November.

The Council also calls on international standard setters to take into consideration CEBS' report on issues regarding valuation of complex and illiquid financial instruments in their work programmes. It looks forward to the review by CEBS of its recommendations on banks' disclosure in 2009 within the scope of pillar III of the Capital Requirements Directive and of its recommendations on valuation and accounting.

The Council also welcomes the initiatives undertaken by the industry to improve transparency for investors, markets and regulators of securitized markets. It takes note of the commitments to develop good practices guidelines on securitisation disclosure, to issue on a quarterly basis an Industry Market Data Report, to supplement it with specific information on the secondary market and to implement initiatives to enhance information to investors. The Council invites the Commission to closely monitor the implementation of these initiatives and to report back to the EFC and the Ecofin in early September.

2. Rating agencies

The Council considers that, given the central role ratings play in structured finance as well as their role in the European financial services regulation, it is of high importance to address the concerns that have been raised in the context of the financial turmoil concerning the transparency of the rating processes, risk of conflicts of interest related to the remuneration models of the rating agencies, accountability and the quality of ratings. The Council fully supports the FSF recommendations in this field, in particular differentiated ratings and better information on the risk characteristics of the structured products.

The Council welcomes the revision by IOSCO of its Code of Conduct at the international level, and CESR's and ESME's reports on rating agencies. The Council considers that the revisions to the IOSCO Code of Conduct provide a minimum benchmark for the actions that credit rating agencies should take to address concerns about their activities in the market for structured products. In this context, the Council takes note of the additional steps undertaken in this field by the rating agencies to better address the governance concerns and improve transparency concerning the value and limitations of the ratings.

However, the Council shares the Commission view that the current initiatives do not fully address the challenges posed, that further steps, are needed and that regulatory changes might be necessary.

The Council supports the objective of introducing a strengthened oversight regime for rating agencies and notes in this regard the preliminary views by the Commission as well as the proposals by CESR and ESME. The Council supports an enhanced European approach and the objective of strengthening international cooperation to ensure a stringent implementation of internationally approved principles. To this end, and without prejudice to consideration of its practical application, the Council supports the principle envisaged by the Commission that the rating agencies should be subject to an EU registration system.

The Council would also welcome intensified competition by entry into the market of new players.

The Council underlines that any further steps take into consideration the principles of the IOSCO Code of conduct and further international developments on credit rating agencies oversight and regulation. The Council looks forward for the Commission concrete proposals in the autumn 2008."
