BLACKROCK

March 28, 2014

Mr. Tim Pinkowski
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

Submitted via email to consultation-2014-01@iosco.org

Re: Public Comment on Code of Conduct Fundamentals for Credit Rating Agencies

Dear Mr. Pinkowski,

BlackRock[1] welcomes the opportunity to provide comments on the International Organization of Securities Commissions (IOSCO) proposed revisions to the Code of Conduct Fundamentals for Credit Rating Agencies (the "CRA Code of Conduct"). We have been actively engaged on the issue of credit rating agency reform for the past few years and we have written a number of comment letters and white papers on the topic.[2] In the course of our discussions with policy makers, we have consistently emphasized that credit ratings are a useful tool in the investment process that should be preserved. However, we have also encouraged (i) greater transparency and disclosure of information to investors, (ii) processes to identify and mitigate conflicts of interest that can arise in the credit rating process, and (iii) measures to reduce issuers' ability to engage in "rating shopping"[3].

We commend IOSCO for taking the time to review and update the Code of Conduct Fundamentals for Credit Rating Agencies. We are supportive of the proposed changes and believe they will encourage greater transparency to investors and other market participants as well as promote the adoption of measures to mitigate potential conflicts of interest in the credit rating process. In the following pages, we have provided comments regarding specific provisions in the revised CRA Code of Conduct.

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1 BlackRock is one of the world's leading investment managing firms. Our client base ranges from sovereign wealth funds and official institutions to financial institutions, foundations, corporations, charities and pension funds. The mainstay of our client base is represented by pensioners and savers. BlackRock pays due regards of its clients' interests and it is from this perspective that we engage on matters of public policy. As a fiduciary for our clients, BlackRock supports a regulatory regime that increases transparency, protects investors and facilitates responsible growth of capital markets, while preserving consumer choice and assessing benefits versus implementation costs.

2 See "Response to ESMA, EIOPA and EBA Joint Consultation Paper on Mechanistic References to Credit Ratings in the ESAs' Guidelines and Recommendations" (5 December 2013), http://www.blackrock.com/corporate/en-us/literature/whitepaper/mechanistic-references-credit-ratings-esma-eiopa-eba-120513.pdf ; "SEC Credit Ratings Roundtable, BlackRock Comments" (3 June 2013), http://www.blackrock.com/corporate/en-us/literature/whitepaper/credit-ratings-roundtable-sec-060313.pdf ; *ViewPoint* Credit Rating Agencies: Reform, Don't Eliminate (July 2013), http://www.blackrock.com/corporate/en-us/literature/whitepaper/viewpoint-credit-rating-agencies-reform-dont-eliminate.pdf ; *ViewPoint* – Reform of Credit Rating Agency Regulation in Europe: An End Investor Perspective (April 2012), http://www.blackrock.com/corporate/en-us/literature/whitepaper/credit-rating-agency-end-investor-perspective-apr-2012.pdf

3 We define "ratings shopping" as issuers' ability to solicit feedback from rating agencies prior to engaging the agency to rate the issue.

We appreciate the opportunity to comment on the proposed revisions to the CRA Code of Conduct. Please contact any of the undersigned if you would like to discuss BlackRock's views in further detail.

Sincerely,

Kevin G. Chavers
Managing Director

Alexis Rosenblum
Associate

BlackRock Response

Below we have provided comments related to specific provisions in the revised CRA Code of Conduct.

Proposed Provision Number	Proposed Provision Text
1.20	*"A CRA and its employees should not, either implicitly or explicitly, give any assurance or guarantee to an entity, obligor, underwriter, originator, or arranger about the outcome of a particular credit rating action. This does not preclude the CRA from developing prospective assessments used in structured finance and similar transactions, provided that doing so does not impair the integrity of the credit rating process."*

We are concerned that this provision could inadvertently lead to ratings shopping for structured finance and similar transactions by stating that this provision does not preclude prospective assessments, presumably after an assurance or indication of the likely outcome of the prospective assessment is provided.

This provision could be improved by stating that a CRA and its employees should also not provide any assurance or guarantee to an entity, obligor, underwriter, originator, or arranger about the conclusion or outcome of a particular prospective assessment in the case of structured finance and similar transactions. Additionally, we recommend that any prospective assessment of a structured finance security be provided only after engagement of the CRA.[4]

2.6(e)	*"A CRA should establish, maintain, document, and enforce policies, procedures, and controls to identify and eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the credit rating methodologies, credit rating actions, or analyses of the CRA or the judgment and analyses of the CRA's employees. Among other things, the policies, procedures, and controls should address (as applicable to the CRA's business model) how the following conflicts can potentially influence the CRA's credit rating methodologies or credit rating actions:"* … *"e. having a direct or indirect ownership interest in a rated entity or obligor, or having a rated entity or obligor have a direct or indirect ownership interest in the CRA."*

We recommend that this provision explicitly exempt holdings in CRAs by diversified collective investment schemes such as UCITS, 1940 Investment Company Act mutual funds, and exchange-traded funds (ETFs). As it currently reads, the provision does not take into account the fact that index funds, for example, are obliged to invest in securities in a given index which could include publicly traded CRAs or their parent companies. In the case of index

[4] *See ViewPoint* – Credit Rating Agencies: Reform, Don't Eliminate (July 2013). Available at http://www.blackrock.com/corporate/en-au/literature/whitepaper/viewpoint-credit-rating-agencies-reform-dont-eliminate.pdf

funds, investments are undertaken pursuant to the fund's investment guidelines, which direct the manager to track the index. This means that the manager cannot choose not to invest in a particular security simply because it is a CRA. The EU's CRA Regulation provides a model for this exemption.[5]

3.3	*"A CRA should publicly disclose any material modification to a credit rating methodology. Disclosure of the material modification should be made prior to the modification taking effect unless doing so would negatively impact the integrity of a credit rating by unduly delaying the taking of a credit rating action. The CRA should carefully consider the various uses of credit ratings before modifying a credit rating methodology."*

We are concerned about the exclusion for instances where disclosure of such information "would negatively impact the integrity of a credit rating by unduly delaying the taking of a credit rating action". A CRA should be required to publicly disclose any material modification to a credit rating methodology or the intention to modify a rating methodology at the time when the decision to make a modification is made.

One of the key issues that led to abuses in the lead up to the 2007-2008 financial crisis was that upcoming modifications to ratings methodologies were sometimes known by issuers before their effective date, which in some instances provided a distorted incentive to time the issuance of securities to obtain a better rating. This example was particularly prevalent in the ratings of structured finance securities. In many instances, this situation led to information asymmetries and improper ratings that had a negative impact on investors and ultimately the capital markets. This provision in the CRA Code of Conduct should be revised so as to prohibit this situation from arising again in the future.

[5] REGULATION (EU) No 462/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies, Article 6a.