



31st Annual Conference of
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Panel 3: Bond Markets – Should Their Transparency be Enhanced?

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**STANDARD
& POOR'S**

Setting the Standard



*“Enhancing Bond Market Transparency –
A Rating Agency’s Perspective”*

31st IOSCO Annual Conference
June 8, 2006

Tom Schiller
Executive Managing Director
Asia-Pacific

The McGraw-Hill Companies



Agenda

- Standard & Poor's Ratings Services
 - Background
 - Role & Function
 - Commitment To Transparency
- Objective, Independent Credit Analysis
 - Role
 - Keys To Effectiveness
- Benefits Of Enhanced Transparency



Standard & Poor's Ratings Services *Background*

- Leading Global Rating Agency
- Division Of The McGraw-Hill Companies
- Founded in 1860
- Rating Bonds Since 1916
- Over 6,300 Employees
- Offices In Major Financial Centers
- In Asia-Pacific, We Serve Both Global & Local Financial Markets:
 - Active in the region since 1970s
 - Opened Tokyo office in 1985
 - Have nearly 2,000 staff operating in Japan, India, China, Hong Kong, Singapore, Korea, Taiwan, Malaysia and Australia
 - Work with an extensive alliance network – CRISIL, Taiwan Ratings Corp., Rating Agency Malaysia, Pefindo, Risk Databank
 - Recognized as “The Most Influential Rating Agency In Asia” By FinanceAsia



Standard & Poor's Ratings Services

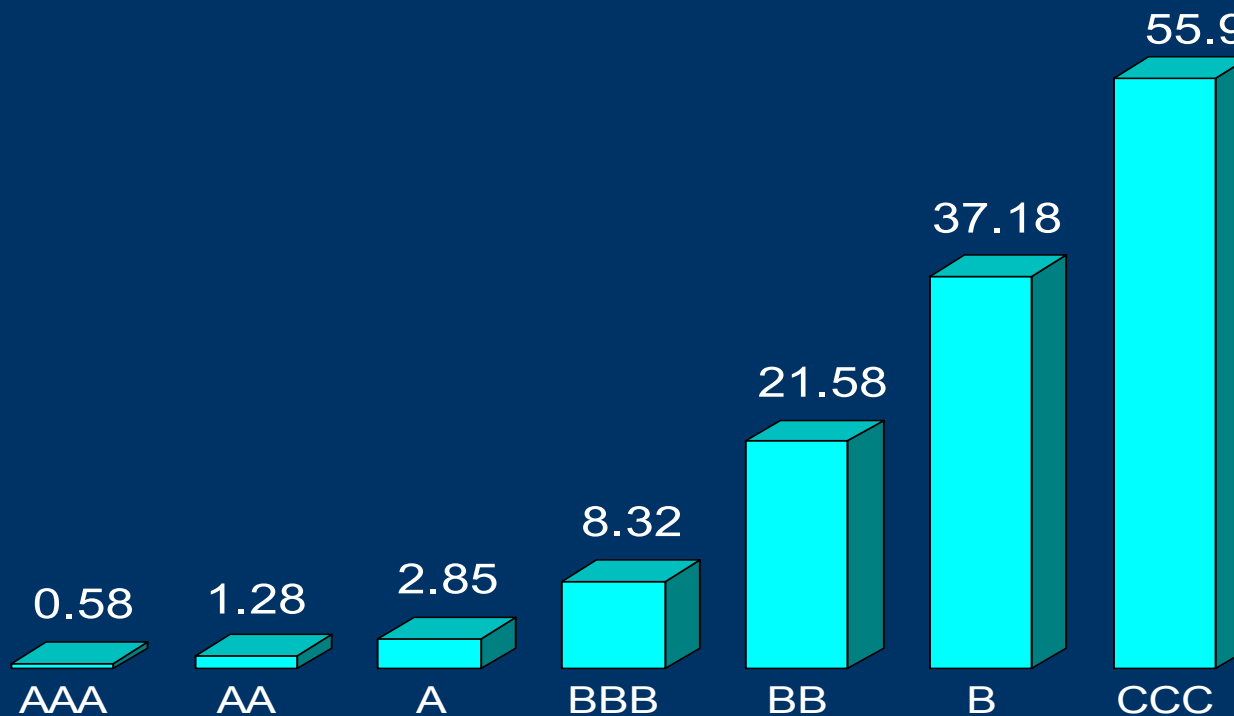
Role & Function

- Main role of S&P's credit ratings is to help enhance **transparency** and **efficiency** in debt capital markets by reducing information asymmetry between borrowers and lenders.
 - Ratings are independent and objective measurements of credit quality
 - Ratings are widely and publicly available to the market at no cost
 - Performance of S&P's ratings has been demonstrated
- Credit ratings are an important component of the global capital markets, providing an effective and objective tool to evaluate credit risk.
 - Simple, widely understood global measure of credit risk
 - Benchmark for risk premium
 - Assist in portfolio monitoring and diversification



Average Cumulative 15-Yr Default Rates (%)

The Lower the Rating, The Higher the Credit Risk

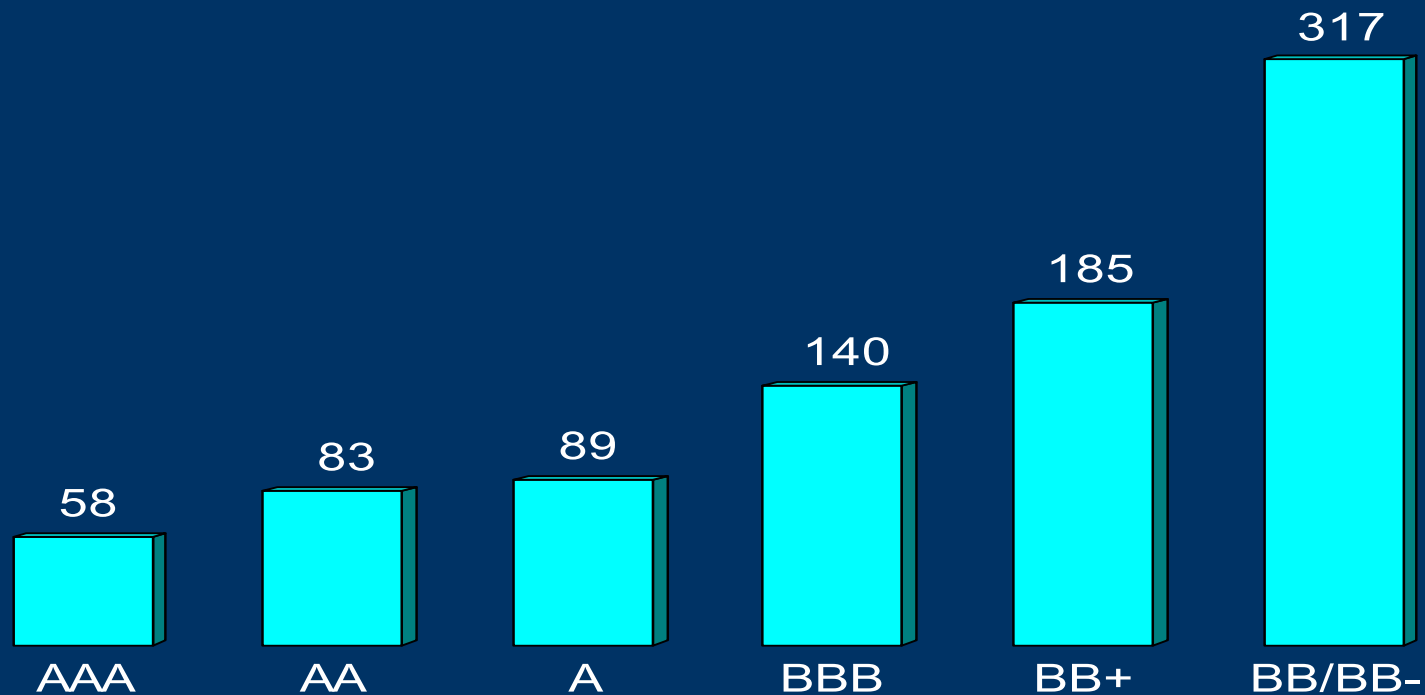


Source: 2005 S&P Default Study



Corporate Bond Spreads on 10-Yr U.S. Treasuries

The Lower the Rating, The Higher the Pricing



Source: 2005 S&P Default Study



Standard & Poor's Ratings Services

Commitment To Transparency

- Criteria Development – in consultation with the market to keep pace with developments:
 - Structured financings – synthetics, complex asset classes
 - Equity-hybrid securities
 - Governance analytics
- New Products – ongoing innovation to meet expanding market needs:
 - National scale ratings; SME ratings
 - Risk management tools & services
 - Local language credit research
- Investor Education – pro-active outreach and “open door” policy:
 - Seminars, conferences and training
 - Public access via Standardandpoors.com to: all public ratings issued in the past 24 hours, major default and transition studies, criteria and methodology publications, key operating policies
- Regulator Outreach – maintain close contact and exchange opinions:
 - Share our long and broad global experience about financial market practices and developments
 - Participate in workshops, study groups, pilot programs, etc.



Independent, Objective Credit Analysis: *Role*

- At S&P, we believe that fundamental analysis and the role that rating agencies like us play has grown even more critical in the current environment of increasingly global and complex debt capital markets.
- Our credit ratings and related research services:
 - Enhance transparency
 - Dynamically respond to financial innovation
 - Support risk-based pricing
 - Provide globally consistent benchmarks and coverage
 - Link national markets
 - Are useful to both institutional and retail investors alike
 - Enable investors to make informed financial decisions and assume responsibility for these decisions
 - Add a key element of independent thought and opinion to bond market functioning



Independent, Objective Credit Analysis: *Keys To Effectiveness*

To effectively play this role, credit rating agencies need:

- Unrestricted market access
 - Enter local markets
 - Leverage global capabilities
 - Flexibly respond to financial innovation on a timely basis
- Culture of openness
 - Transparency and disclosure
 - Free flow of information and opinions
 - Freedom from inhibiting effect of penalties
- Independence
 - Ownership
 - Policies and practices



Benefits Of Transparency

Transparency is key to debt capital market development, growth, and stability because it:

- Drives liquidity by attracting and retaining investors
- Enables the measurement and management of risk
- Facilitates a better allocation of capital, higher productivity of capital, and economic growth