Panel 3: Bond Markets – Should Their Transparency be Enhanced?

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

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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
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
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