

By Fax (2501 0375) and By Post

20 August 2010

Licensing Department  
Securities and Futures Commission  
8/F Chater House  
8 Connaught Road Central  
Hong Kong

Dear Sirs,

**Response to Consultation Paper Concerning the Regulatory Oversight of Credit Rating Agencies**

We refer to the Consultation Paper concerning the Regulatory Oversight of Credit Rating Agencies issued by the Securities and Futures Commission (SFC) on 19 July 2010 (“Consultation Paper”).

We welcome the SFC’s initiative to license and introduce related regulatory obligations to credit rating agencies (CRAs) in Hong Kong. This letter sets out our views on the specific issues on which feedback is sought in the Consultation Paper by replying to the questions raised in respect of each of those issues. Our comments below comes more from a debt issuer perspective which represents CLP’s usual role in the subject. We have, however, placed a ‘No comment’ response against those questions which are not relevant to CLP’s activities or operations and on which, therefore, it would not be appropriate to express our view.

**Q1 Is it appropriate for Hong Kong to subject CRAs to a regulatory oversight regime consistent with international developments?**

Yes for the reason set out in paragraph 1 of the Consultation Paper. It is desirable for Hong Kong, being an international financial centre, to maintain regulatory oversight of CRAs consistent with international developments.

**Q2 Should regulatory oversight of CRAs be achieved by extending the existing licensing regime under the SFO to CRAs and those of their staff who perform regulated functions?**

Yes, we agree that CRA’s employees who are directly involved in performance of credit analysis or in the review/decision-making process should be properly licensed (without overlap with their professional qualifications like CFA) under a regulatory regime compatible with other leading jurisdictions. This would facilitate the application of credit reports among such jurisdictions.

**Q3 Do our draft amendments to the SFO effectively distinguish “providing credit rating services” from “advising on securities”?**

The provision of credit rating services should be clearly distinguished and separated from advising on security/placement transactions (or other forms of business activities which can generate revenues from the credit rating services) in order to avoid a potential conflict of interest.

**Q5 Should the following activities be excluded from the proposed new licensing requirement:**

(a) preparing credit ratings for an organization’s internal purposes;

Yes.

(b) preparing private credit ratings; and

Yes.

(c) sharing or analyzing consumer or commercial credit data (such as through consumer or commercial credit reference agencies)?

No.

**Q6 Further to question 5, do our draft amendments to the SFO effectively exclude these activities from the proposed new licensing requirement?**

Yes, but Q5(c) should not be excluded, as it involves sharing of credit data.

**Q8 Does the CRA Code of Conduct satisfactorily set out the factors that should guide CRAs in the conduct of their business and which should be relied upon by the SFC in considering whether a person is, or remains, fit and proper to be licensed or registered for Type 10 regulated activity?**

It is a comprehensive Code. We support the proposal to increase transparency in rating methodology. CRAs should disclose adequate information on their rating methodology, including credit parameters and the criteria for potential upgrade or downgrade. Certain CRAs are moving in this direction, but we can still see significant differences between the various cases.

We also propose greater transparency in disclosing the fee setting mechanism of CRAs. If commercial sensitivity is a concern, the Code can require CRAs to provide sufficient information to their customers only on how their fees are set.

We do not have any comments on Q4, Q7, Q9, Q10, Q11 and Q12.



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We have welcomed the opportunity to comment on the Consultation Paper and to support the SFC's initiative to regulate CRAs with a view to promoting the independence and objectivity of CRAs and to improving the quality of their ratings.

