

# Credit Ratings Services Bill, 2012

*Parliamentary Workshop*

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**REPUBLIC OF SOUTH AFRICA**



# Agenda

- Background to CRA's and ratings
- European Securities and Markets Authority requirements
- South Africa and financial markets
- Elements of the Bill
- Conclusion

# Background

- Credit rating agencies have been around since early 1900's
- Initially provided opinion on railroad stock in USA
- Have evolved into international institutions, recognised worldwide
- Provide an opinion on "*Issuer's ability to meet its commitments, repay debt*"
  - This is done via a rating scale.

# Rating Types in South Africa

- Sovereign
- Banks
- Insurance
- Corporates
- Public Finance
- Fund Managers
- Project Finance
- Structured Finance

# South Africa and Ratings

- South Africa a key emerging market for investors and they will require ratings
- Need multiple sources of funding for the Banks, Corporates, etc., Foreign sources are vital
- Expect to see more ratings

# European Securities and Markets Authority (ESMA)

## Recognised:

- Global nature of credit ratings
- Cross-border activities of certain CRAs
- Importance of on-going supervisory and enforcement-related cooperation
- Require a MoU which sets forth the Authorities' intent to cooperate with each other

The Authorities will, within the framework of this MoU:

- Provide each other with the fullest cooperation permissible
- Supervise cross-border CRAs, and
- Enforce compliance with the relevant Laws and Regulations

## Cross-border CRA:

- Authority will accordingly notify the other Authority about the status of the CRA's recognition, authorization, or registration; and
- Will provide it with the information regarding the CRA's cross border operations

## Authorities agree that they will cooperate with each other:

- in discharging their on-going supervisory responsibilities in respect of Cross Border CRAs
- inform each other immediately when an enforcement or supervisory action has been taken against a Cross Border CRA

The assistance includes, but is not limited to:

- providing information and documents held
- obtaining information and documents
- taking or compelling a person's statement, or testimony under oath
- conducting on-site inspections to gather information

# Result

- Credit ratings issued in South Africa are recognised in Europe
- South Africa continues to have access to regulated international capital markets
- South Africa maintains international position, IOSCO

# South Africa - Domestic Market

- Active, sophisticated and world class local Debt Capital Market
- R trillions of funds under management
- Will continue to require the role of international and local credit rating agencies
- Market has the choice to rely/not rely on credit ratings issued

# S A - International Debt Raising

- Domestic market is too small to meet Country's total debt requirements,
- Would “mop up” and take liquidity out of the local market
- Need access to foreign debt capital markets
- Will need a credit rating, probably two, maybe even three ratings

# S A - International Debt Raising

- Sovereign
- ESKOM
- Transnet
- Others to follow

# Corrective Action

Measures to deal with:

- Conflicts of interest
- Quality of the credit ratings, including publication of ratings
- Transparency and internal governance
- Surveillance of the activities of CRAs

# Independence of CRA's

*“20. No person, including the registrar, may hinder, interfere with, obstruct or improperly attempt to influence a credit rating, the content of a credit rating, or any methodology, model or key assumption used by a registered credit rating agency to derive a credit rating.”*

# Conclusion

- The Bill ensures South Africa has regulations in place.
- The Bill adds to credibility of ratings issued in the country.
- South Africa is part of European and International regulatory environment, undergoing continuous update.
- South Africa – access to international markets.

*Thank you*