

The information value of corporate and sovereign ratings from the perspective of Debt Management Offices (DMOs)

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19th OECD Global Forum on Public Debt Management, 25-26 November 2009

SESSION 3

Questions for discussion

- **Questions from the perspective of DMOs as users of corporate and sovereign ratings and as professionals operating in primary and secondary government securities markets**
- **A ‘consumer’ perspective rather than an assessment of ratings using regulatory (quality) standards *per se***

I. Link between borrowing requirements and rating changes

- **II. Is there a direct link between the increase in borrowing requirements and guarantees and changes in sovereign ratings?**
- **No direct link ? (Naturally, an excessive rise in actual or contingent government liabilities may contribute to very weak public finances triggering, eventually, downgrades.)**

II. Methodology of CRAs

- **Are credit rating agencies (CRAs) using the correct methodology to measure changes in sovereign credit risk?**
- **Many OECD debt managers are critical about the value of ratings and the underlying methodologies**

III. How useful are ratings for DMOs?

- **More specifically, what is value added of external ratings in light of the situation that there are many competent analysts operating outside CRAs?**
- **Ratings are used for different purposes**
- **Ratings comprehensive market indicator of credit risk?**

IV.a What is the impact of changes in sovereign ratings on markets?

- **Downgrades of sovereign ratings have normally a market impact via various channels**
- **Impact of lower sovereign rates on corporate rates depending on circumstances**

IV.b Do markets largely ignore downgrades of (larger) OECD economies?

- **Do markets largely ignore downgrades of (larger?) OECD economies, as evidenced by the fact that spreads actually narrow post downgrade?**
- **Is there a difference between mature and emerging markets?**
- **Mature markets ignore in most cases downgrades?**

V. Responsibilities of DMOs in relationships with CRAs

- **What are the responsibilities of DMOs as part of the relationships of governments with CRAs?**
- **Responsibilities of DMOs vary across OECD jurisdictions**
- **Several DMOs central point for all contacts**
- **Other DMOs have minimum communications as part of a hands-off relationship**

VI. Alternatives to external ratings?

- **Are there serious alternatives to ratings calculated by CRAs such as CDS-spreads?**
- **CDS-spreads cannot replace external ratings**