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

Hans J. Blommestein
OECD

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