

Bertelsmann Foundation Study on a Non-Profit Sovereign Ratings Agency

FAQs

What is this Bertelsmann Foundation study? Why is there a need for a non-profit NGO ratings agency?

The Bertelsmann Foundation has been working since December 2011 on a feasibility study for an international, non-profit ratings agency. The agency will focus solely on sovereign ratings.

The Bertelsmann Foundation believes that the practices of the big three US ratings agencies are coming under increasing criticism for their narrow ratings criteria and their opaque methodology.

The Foundation's study focuses on two questions:

- 1) What could be the legal structure of an international credit ratings agency?
- 2) What new, innovative indicators can be added to traditional macroeconomic data to produce a more comprehensive sovereign ratings system?

The Bertelsmann Foundation itself is not establishing a new credit ratings agency. It is simply proposing the framework for an alternate type of agency.

Why does the Bertelsmann Foundation believe that a new, international ratings agency should be a non-profit organization?

Sovereign ratings are currently put out only by for-profit institutions whose credibility has come under attack in recent years. The Bertelsmann Foundation believes that increasing the acceptance, transparency and legitimacy of sovereign ratings can best be accomplished via a non-profit NGO. Such an organization, however, could well include the involvement of governmental and private actors. Participation need not be confined solely to civil society.

The Bertelsmann Foundation is not proposing to replace or depose the American for-profit ratings agencies. The study is meant to promote the establishment of an auxiliary institution that will have a global reach and approach, and be able to attain universal acceptance. To accomplish this, the views and positions of developed and developing countries and their investor communities must be considered.

How will the Bertelsmann Foundation's sovereign-ratings criteria differ from the criteria now in use?

The Bertelsmann Foundation will propose using indicators of a country's political, economic and financial development - in addition to traditional macroeconomic data - for

issuing sovereign ratings, Such additional criteria may include a country's political management and/or the extent to which a country is suffering a "brain drain".

The set of criteria that the Bertelsmann Foundation will propose must be credible to investors and must accurately reflect the security of investments made in the countries under review.

How can the Bertelsmann Foundation be sure that markets will accept its criteria?

Die Bertelsmann Foundation has established a worldwide network of private-sector and academic experts to help shape the criteria and ensure that they are of value for investors. Experts from Latin America and Asia are playing a significant role in this effort to help ensure global acceptance.

What experience does the Bertelsmann Foundation have to conduct such a study?

The Bertelsmann Foundation has for more than a decade measured political, economic and social management and development through its Transformation Index (BTI; www.bertelsmann-transformation-index.de/en/) and Sustainable Governance Indicators (SGI; www.sgi-network.org) projects. These projects involve a global network of more than 300 experts from more than 150 countries.

What does the Bertelsmann Foundation want to achieve with this study?

The Bertelsmann Foundation wants to contribute to the current debate about the role and relevance of credit ratings agencies, and their rating practices. That debate has in recent years centered on the worldwide criticism of these practices and led to calls from government officials, economists and civil-society leaders for a new sovereign-ratings model. The Foundation wants to show that it is possible to create an alternative ratings-agency legal structure and an alternative set of criteria that can gain international acceptance.

Will the Bertelsmann Foundation itself establish a new credit ratings agency?

The Bertelsmann Foundation is a think tank that spurs debate and discussion on political, economic and social issues. The Foundation sees the ratings-agency study as an important contribution to the debate and discussion on new rules for international financial- and economic-policy governance. The Foundation sees its study as a potential item for consideration among the G20, which has already had ratings-agency regulation on its agenda. The Foundation, however, will not establish a new credit ratings agency.

Is the Bertelsmann Foundation trying to replace the big three American ratings agencies?

The purpose of the Bertelsmann Foundation study is to put forward an alternative and additional model for sovereign ratings. There is no intention of replacing the existing models of the for-profit ratings agencies.

When will the study be completed?

The Bertelsmann Foundation plans to release the study at the annual financial conference of its US branch, the Bertelsmann Foundation North America (www.bfna.org). The conference will take place in Washington, DC on April 19, 2012.

The Bertelsmann Foundation North America is overseeing the study, but experts from the Foundation's German headquarters play a significant role in the study's development.

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