MEDIA RELEASE

International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

IOSCO/MR/04/2021

Madrid, 15 February 2021

IOSCO Reviews the Impact of COVID-19 Government Support Measures on Credit Ratings

The Board of the International Organization of Securities Commissions (IOSCO) today published a report analyzing the observed impact of COVID-19-related government support measures (GSM) on the credit ratings of the three largest credit rating agencies - Fitch, Moody´s and Standard & Poor´s (collectively the “CRAs”).

In response to the COVID-19 pandemic, governments worldwide rapidly deployed fiscal, monetary, and financial support measures on an exceptional scale. Simultaneously, the pandemic-induced economic and market turmoil led to many credit ratings downgrades, bringing CRAs and their ratings under greater regulatory, industry and media focus.

The review was conducted by IOSCO´s Financial Stability Engagement Group (FSEG) and is based on publicly available information gathered from the CRAs, as well on IOSCO member expertise and analysis. To supplement the analysis, IOSCO also hosted roundtable discussions with industry participants and held bilateral discussions with each of the CRAs.

IOSCO’s report provides a summary of the observed impact of GSMs on credit ratings and credit ratings methodologies through a review of any changes made to the methodologies, their application to rating actions taken during the timeframe of the pandemic, as well as implications of the withdrawal of GSMs on credit ratings and methodologies. The report does so across four main asset categories:

- Sovereigns
- Financial Institutions
- Non-Financial Corporates

- Structured Finance

In terms of outcomes, IOSCO observed no material changes to CRA methodologies and that rating disclosures typically explain the impact of the GSMs where such impact was material to the rating decision.

In addition, the review notes that CRAs considered the impact of the pandemic and the economic shock in their credit ratings. The review also suggests that GSMs played a significant role in alleviating the downward pressure on credit ratings. However, according to CRAs, the long-term effectiveness of GSMs cannot be fully assessed and measured at this stage.

Furthermore, the forward-looking assumption made by CRAs is that the GSMs will continue until the economic environment is stable enough to allow for gradual withdrawal. The risk of premature withdrawal of GSMs, especially in emerging market economies, is one of the downside risks to the global economic recovery post-pandemic.

The report concludes that, as the after-effects of the COVID-19 health crisis continues to unfold into 2021, it remains important to continue to consider the effects of the GSMs across credit ratings and credit rating methodologies.

Notes to the Editor:

1. IOSCO is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in some 130 jurisdictions, and it continues to expand.

2. The IOSCO Board is the governing and standard-setting body of the International Organization of Securities Commissions and is made up of 34 securities regulators. Mr. Ashley Alder, the Chief Executive Officer of the Securities and Futures Commission of Hong Kong, is the Chair of the IOSCO Board. The members of the IOSCO Board are the securities regulatory authorities of Argentina, Australia, Bahamas, Belgium, Brazil, China, Egypt, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Morocco, Nigeria, Ontario, Pakistan, Portugal, Quebec, Russia, Saudi Arabia,

Singapore, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, the United Kingdom, and the United States of America (both the U.S. Commodity Futures Trading Commission and U.S. Securities and Exchange Commission). The Chair of the European Securities and Markets Authority and the Chair of IOSCO´s Affiliate Members Consultative Committee are also observers.

3. The IOSCO Financial Stability Engagement Group (FSEG) is a Board-level group set up to enhance IOSCO's approach to financial stability issues, including with regards to its engagement with the Financial Stability Board ("FSB"), international standard-setting bodies ("SSBs"), and other organizations.

4. The Growth and Emerging Markets (GEM) Committee is the largest committee within IOSCO, representing close to 80 per cent of the IOSCO membership, including 11 of the G20 members. Dr. Obaid Al Zaabi, Chief Executive Officer, Securities and Commodities Authority, United Arab Emirates, is the Chair of the GEM Committee. The committee brings members from growth and emerging markets together and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. The GEM Committee's strategic priorities are focused, among others, on risks and vulnerabilities assessments, policy and development work affecting emerging markets, and regulatory capacity building.

5. IOSCO aims through its permanent structures:

   - to cooperate in developing, implementing and promoting internationally recognized and consistent standards of regulation, oversight and enforcement to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
   - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and
   - to exchange information at both global and regional levels on their respective experiences to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

MEDIA ENQUIRIES

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