

June 6, 2007

Chancellor Angela Merkel
President, Group of Eight (G8)
Bundeskanzleramt
Willy-Brandt-Straße 1
10557 Berlin, Germany

Via facsimile: +49 30 4000 2357

Dear Chancellor Merkel:

The German EU Presidency has rightly made transatlantic trade an important priority, and we believe that a modern and innovative financial services sector is essential to facilitating free trade between Europe and the United States. We are therefore writing you to express our deep concern about current U.S. regulations that hamper innovation in financial services and put European as well as American investors at risk. We urge you to put this issue high on the agenda for this week's Group of Eight (G8) Summit in Heiligendamm.

Accurate credit ratings are essential to a well-functioning market for financial services, but unfortunately the market for credit ratings has become highly monopolistic. The U.S. Securities and Exchange Commission (SEC) makes it very difficult for entrepreneurial credit rating agencies to enter the market, and the established agencies therefore face little competitive pressure to improve the quality of their ratings. Consequently, many of the leading credit rating agencies are marred by conflicts of interests and have neglected to develop the necessary expertise required to rate new and innovative financial products.

Most recently, we have seen mounting evidence that the world's leading credit rating agencies are ill-equipped to assess the risks of mortgage-linked collateralized debt obligations (CDOs). This failure to accurately state the risks to investors has contributed to a bubble in the U.S. housing market by enabling banks to offer risky subprime mortgages to borrowers that normally would not qualify for loans.

Now that the housing bubble is bursting, large banks such as HSBC have been forced to issue profit warnings, and some mortgage originators have even gone bankrupt. According to the Center for Responsible Lending, the cumulative loss in the American housing market could get as high as \$164 billion. Needless to say, a loss of this magnitude will be felt on both sides of the Atlantic in this age of globalization where risk is spread between investors all over the world.

To prevent similar bubbles in the future, it is vital to have well-functioning and effective credit rating agencies. Regulation of credit rating agencies is one of the topics being discussed in the EU-US Financial Markets Regulatory Dialogue, and we believe that it is time to give this issue a much higher profile.

The European Union has been a pioneer in breaking up monopolies, and we should continue to defend the virtues of competition in our interaction with American policymakers. A failure to free up competition and innovation among the credit rating agencies today could easily come back to haunt regulators and investors in the form of a widespread market failure tomorrow.

Yours sincerely,

MP Daniele Capezzone - President of the
Commerce Committee

MEP Lapo Pistelli

MP Benedetto della Vedova

MEP Andrea Sordo

MP Sandro Gozi - President of the Schengen
Committee

Senator Valerio Zanone

cc: Jose Manuel Barroso, President of the European Commission
Jean-Claude Trichet, President of the European Central Bank
Hon. Jim Flaherty, Minister of Finance, Canada
Hon. Thierry Breton, Minister for the Economy, Finance and Industry, France
Hon. Peer Steinbrueck, State Secretary, Ministry of Finance, Germany
Hon. Tommaso Padoa-Schioppa, Minister of Economy and Finance, Italy
Hon. Koji Omi, Minister of Finance, Japan
Hon. Gordon Brown, Chancellor of the Exchequer, United Kingdom
Hon. Henry Paulson, Secretary of the Treasury, United States