

PRESS RELEASE

ESMA fines Moody's €3.7 million for conflicts of interest failures

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has fined five entities in the Moody's Group, based in France, Germany, Italy, Spain and the United Kingdom, a total of €3,703,000 and issued [public notices](#) for breaches of the Credit Ratings Agencies Regulation (CRAR) regarding independence and the avoidance of shareholder conflicts of interest.

The breaches related to:

1. the issuance of credit ratings (ratings) in violation of the ban on issuing new ratings on entities where a credit rating agency (CRA) shareholder exceeds the 10% ownership threshold and/or is a board member of the rated entity;
2. failure to disclose conflicts of interests related to the 5% ownership threshold; and
3. inadequate internal policies and procedures to manage shareholder conflicts of interest.

All the breaches were found to have resulted from negligence on the part of Moody's.

The five entities subject to the action are Moody's Investors Service Ltd (Moody's UK), Moody's France S.A.S. (Moody's France), Moody's Deutschland GmbH (Moody's Germany), Moody's Italia S.r.l. (Moody's Italy), and Moody's Investors Service España S.A. (Moody's Spain).

ESMA believes it is crucial, to ensure independent good quality ratings and to protect investors, that CRAs carefully identify, and subsequently eliminate or manage and disclose conflicts of interest to avoid interference by shareholders with the rating process.

Breaches of the Credit Rating Regulation

The infringements committed by [Moody's UK](#), for which it was fined €2,735,000, were:

- issuing new ratings in violation of the ban related to the 10% ownership threshold, in

particular the prohibition to issue a new rating where a shareholder holding 10% or more of the capital or voting rights of the CRA also holds 10% or more of the capital or voting rights or is a member of the administrative or supervisory board of the rated entity;

- the lack of appropriate disclosure regarding shareholder conflicts of interests which occurred in 206 instances for 65 rated entities. Regarding the requirement to publicly disclose where an existing rating is potentially affected by a situation where a shareholder of a CRA holding 5% or more of the capital or voting rights of the CRA also holds 5% or more of the capital or voting rights, or is a member of the administrative or supervisory board of the rated entity;
- a lack of adequate policies and procedures. It was found that although Moody's Procedure on Shareholding, aimed at avoiding the conflicts of interests, contained the legal ban to issue new ratings related to the 10% threshold, it also included an incorrect exception to the ban;
- a lack of appropriate and effective organisational and administrative arrangements, with significant shortcomings in the data source used to identify conflicts; and
- a lack of sound administrative, accounting procedures and internal control mechanisms.

The Moody's entities in France, Germany, Italy and Spain each committed the following infringement:

- lack of appropriate disclosure regarding shareholder conflicts of interests, which occurred in 72 instances for 36 rated entities. Regarding the requirement to publicly disclose where an existing rating is potentially affected by a situation where a shareholder of a CRA holding 5% or more of the capital or voting rights of the CRA, holds 5 % or more of the capital or voting rights or is a member of the administrative or supervisory board of the rated entity.

They were each fined the following amounts:

- [Moody's France](#) – €280,000;
- [Moody's Germany](#) – €340,000; and
- [Moody's Italy](#) and [Moody's Spain](#) – €174,000 each.

Notes for editors

1. [ESMA41-356-168 Public Notices Moodys UK DE ES FR IT](#)
2. [ESMA41-356-114 Decision 1-2021 Moody's UK](#)
3. [ESMA41-356-129 Decision 2-2021 Moody's France](#)
4. [ESMA41-356-130 Decision 3-2021 Moody's Germany](#)
5. [ESMA41-356-131 Decision 4-2021 Moody's Italy](#)
6. [ESMA41-356-132 Decision 5-2021 Moody's Spain](#)
7. [Table of Enforcement Actions](#)
8. Right to Appeal – Moody's may appeal against this decision to the Board of Appeal of the European Supervisory Authorities. Such an appeal does not suspend the action, although it is possible for the Board of Appeal to suspend the application of the decision in accordance with Article 60(3) of ESMA Regulation.
9. ESMA is the European Union's securities markets regulator. Its mission is to enhance investor protection and promote stable and orderly financial markets.
10. It achieves these objectives through four activities:
 - i. assessing risks to investors, markets and financial stability;
 - ii. completing a single rulebook for EU financial markets;
 - iii. promoting supervisory convergence; and
 - iv. directly supervising specific financial entities.
11. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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