

## Chairman’s Report to the 19<sup>th</sup> ACRAA Annual Meeting 14 November 2019, Manila, Philippines

### Introduction

1. In 2019, ACRAA’s Board of Directors continued to pursue its **three-pronged strategy** that was endorsed at the last annual meeting of ACRAA in Tokyo, Japan on 7 December 2018. The components of this strategy are:

- to increase the **global visibility** of member rating agencies amongst cross-border investors
- to continue and strengthen ACRAA’s flagship **joint training** programs
- to deepen **cooperation with** the Asian Bankers Association (**ABA**) and the European Association of Credit Rating Agencies (**EACRA**).

#### ACRAA Board of Directors (2019-20)

Chairman		Satoshi Nakagawa
Vice Chairman		Rajesh Mokashi
Membership Committee	Chair	Rajesh Mokashi
	Vice Chair	Rafi Karagol
Training Committee	Chair	Santiago Dumlao Jr. *
	Vice Chair	Luo Guang
New Horizons	Co-Chair	Satoshi Nakagawa
	Co-Chair	Grace Lee
ABA Desk	Head	Grace Lee
EACRA Desk	Head	Rafi Karagol
ACRAA Ambassador for International Relations		Faheem Ahmad

*\*/ Tentative appointment until the new Board is formed*

2. In this report, I am pleased to set out an overview of ACRAA’s activities during the past year.

### Membership

3. In September 2019, ACRAA’s Board of Directors decided to accept the membership application of **Analytical Credit Rating Agency (Joint Stock Co.), ACRA**. ACRA is a rating agency domiciled in Moscow, Russia, which was established in 2015 and is compliant with the requirements of the Federal Law N 222-FZ (Russia) and is recognized by the Bank of Russia, the central bank of Russian Federation. ACRA was asked by the Board to give a brief introduction about their agency and the credit rating industry in Russia at the 19<sup>th</sup> Annual Meeting in November 2019. With this new member, ACRAA is now made up of 29 rating agencies from 14 jurisdictions. We look forward to continuing to attract new agencies and increasing the diversity of our membership.

### Joint Training

4. A training workshop on “**Advanced Analysis of Infrastructure Projects: Energy & Tollways**” was organized by the Association in **Jakarta, Indonesia** in July 2019. This was a very popular event and reached the maximum capacity of attendees; there were 76 participants who came from 34 different organizations. I would



like to thank the lecturers, especially those from CARE Ratings Ltd. and PT Pemingkat Efek Indonesia (PEFINDO), and record my special thanks to Mr Salyadi Saputra, President Director of PEFINDO, and his team for their excellent organization of the workshop.

### **Global Visibility**

5. The major activity in the past year to meet ACRAA's strategy to promote its own and members' global visibility was the seminar we held in Shanghai in September 2019: **"China Capital Market Opening Up: A Win-Win Opportunity"**.

The seminar provided the 130 attendees with information about the latest developments in China's bond market, which became the world's second largest, after the US, in 2018. The issuers of Panda Bonds, a RMB-denominated bond by overseas issuers, have been expanding and diversifying rapidly. There is a growing demand from market players to deepen their understanding of credit risks for cross-border investment with China and the role to be played by rating agencies in the region.

The seminar was divided into two sessions: overseas' issuers and Chinese investors, and another for Chinese issuers and overseas' investors. The sessions included updates on a number of initiatives underway to deregulate the restrictions that apply to foreign investors' activities in China's domestic capital market. The presenters and the panelists came from China, the Philippines, Russia, Thailand, and also the ABA, the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB).

In organizing this seminar, ACRAA is hugely indebted to Mr Luo Guan, Chairman, and Ms Stella Chang from Golden Credit Rating International Co. Ltd., for their tireless work as the hosts and local coordinators, which was pivotal to the successful delivery of this event.

### **Cooperation with the ABA and EACRA**

6. We have undertaken several successful activities in cooperation with the ABA and EACRA over the past year and we wish to continue to enhance this good relationship.

7. The ABA is holding its 36<sup>th</sup> General Meeting and Conference in Manila, Philippines in November 2019 and invited ACRAA members to attend. ACRAA therefore decided to move



its own annual meeting (which is normally held in December) to coincide with the ABA meeting. Taking into account the rapid growth of the sustainable finance market in Asia, the ACRAA board decided to introduce ACRAA members' sustainable finance evaluation services to ABA members. I would like to thank Golden Credit Rating International Co. Ltd., Japan Credit Rating Agency, Ltd., Taiwan Ratings Corp. and TRIS Rating Co., Ltd. for responding to the call for presenters to speak at the event.

8. In April 2019, EACRA invited ACRAA representatives to its Annual Meeting in Lisbon, Portugal. Dr Rafi Karagöl, board member and head of the EACRA Desk, attended on behalf of the Association and gave a presentation on "CRA Market Outlook: Asian Markets; India and China". I would like to express my thanks to Dr Karagöl for deepening the collaborative relationship with EACRA.



**Other matters**

9. ACRAA is a not-for-profit organization, and I am pleased to report the Association's financial position is healthy and sustainable. Workshops have been an important source of fee revenue to the Association: all ACRAA members may send one participant to workshops at no cost, and additional participants from member firms and all attendees from non-member are charged a fee. For the training event in Jakarta in July, the course fees raised covered all the costs.

10. In order to heighten the transparency and the continuity of the Association, the Board agreed that the Chairman, in addition to the Secretary General, be authorized to operate, deposit and withdraw funds, if required, from ACRAA's bank accounts.

**Conclusion**

11. In closing my report, I would like to express my heartfelt gratitude to you all for your trust and confidence in me as the Chairman of ACRAA over the last two years. I feel truly privileged, honored and proud to have undertaken this role, in which I have strived to serve the best interests of all ACRAA members.

12. I am personally convinced that ACRAA has a unique, significant and indispensable role to play in global financial deliberations. The Association gives members (both from the management and analyst sides) stimulating opportunities to meet peer raters from different countries, where they can candidly: share information and learn from each others' experiences, discuss new and innovative approaches to credit rating and ancillary services and obtain ideas to continuously improve the quality of rating services. This type of networking can be useful to member CRAs when they rate and monitor issuers in other countries where peer CRAs operate. I firmly believe that the locals know local businesses best. By listening to the local views from peer ACRAA CRAs, we can be more informed about the background and the timely development of those issuers in foreign jurisdictions, which may substantially improve the quality of rating.

13. Looking ahead, I believe that ACRAA, as a grouping of domestic rating agencies in Asia, has the potential to further expand its horizon in the following directions:

- (i) **A center of excellence for credit analysis:** ACRAA could extend the use of its training platform to support credit analysts from a wider range of non-member financial institutions in Asia. Initial steps have already been taken towards this goal by accepting the participation of non-members on our flagship joint training workshops.
- (ii) **A resource center able to tap into ‘on-the-ground’ financial stability assessments:** ACRAA members rate a substantial number of local corporates in various Asian jurisdictions. ACRAA may therefore be a useful source of views on the risks of local industries and corporates that may, if consolidated, indicate the macro-level strength of financial stability of Asian economies. This information could also be used by international surveillance bodies in analyzing the potential impact, especially from systemically important economies in Asia, to global financial stability.
- (iii) **A focal point of highlighting potential systemic risks in Asia:** Some of ACRAA’s member CRAs suffered severely by a systemic crisis like the Asian Financial Crisis. With the surge in cross-border capital flows after the Global Financial Crisis, Asian economies may be even more susceptible to global economic shocks. ACRAA could provide an arena for members to jointly understand and assess the impact that global markets may have on the region. This may improve members’ assessments of systemic risks, which, through proper rating judgment, could even enhance the resilience of their rated entities to systemic risks.
- (iv) **A facilitator in harmonizing sustainable finance evaluations:** The regulatory framework for sustainable finance and the evaluation methodologies by private evaluators including rating agencies are still in the nascent stage of development. With the aim of facilitating the growth of sustainable finance by improving those products’ accountability for the issuers and comparability for the investors, ACRAA may wish to take a role in bringing together private sustainable finance evaluators to assess the usefulness and feasibility of harmonizing their approaches.

14. To promote further discussions on these potential areas of development, I strongly endorse ACRAA’s New Horizon Committee’s recent proposals to set up a Chief Rating Officer (CRO) Roundtable and a Best Practice Dialogue on Sustainable Finance Evaluation. This enhanced infrastructure is likely to improve ACRAA’s ability to provide output relevant to members’ needs and contribute to global financial discussions.

15. As outgoing Chairman, I would like to wish ACRAA and its members all the very best for a successful future.



Satoshi Nakagawa  
Chairman