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COMMITTEE SUPPORT

LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON ECONOMIC DEVELOPMENT AND TOURISM
JEREMY HANSON MLA (CHAIR), MICHAEL PETTERSSON MLA (DEPUTY CHAIR), SUZANNE ORR MLA, MARK PARTON MLA

Inquiry into referred 2015–16 Annual and Financial Reports
ANSWER TO QUESTION ON NOTICE 13
27 February 2017

Asked by Alistair Coe MLA:

Chief Minister, Treasury and Economic Development Directorate 2015-16 Annual Report, Economic Management

In relation to: rating agencies

1. Has there been a formal cost/benefit analysis has been undertaken in regards to retaining two rating agencies as opposed to the current single agency?
   a. How was that analysis carried out?
   b. Was the analysis undertaken within the ACT government or by external consultants?
      i. What was the cost for engaging the external consultants?
   c. What were the findings and recommendations of the analysis?
2. Please outline how having a second credit rating would impact on the risk assessment and rates on borrowing of the ACT by creditors.

Mr Andrew Barr MLA: The answer to the Member's question is as follows:–

1. No.

There are three main providers of credit rating services, Standard & Poor's (S&P), Moody's and Fitch.

S&P was appointed in 2013 for a term of five years to provide credit rating services to the Territory. Unlike some of the other larger sub-national governments, such as New South Wales, Victoria and Queensland the Territory only utilises one credit rating provider.

The key reasons supporting our decision to retain only one credit rating provider include:
- The Territory's debt issuance program is a domestic only program;
- Under the Territory's debt issuance program our requirement for capital is significantly less than the larger sub-national governments;
- The depth, quality and sophistication of the Australian debt capital markets means there is no requirement to have two or three independent credit rating opinions;
- While sophisticated investors use credit ratings as a guide for investment decisions, wholesale/institutional investors undertake their own credit assessment in addition to considering

Civic Square, London Circuit (GPO Box 1020) Canberra ACT 2601
T (02) 6205 0127 F (02) 6205 0432 E committees@parliament.act.gov.au W www.parliament.act.gov.au

the opinions of independent credit rating providers – investors do not, and should not, rely solely on independent credit rating opinions;

- The financial credentials of the Territory and the other Australian sub-national governments are well understood by investors irrespective of an independent credit rating opinion. As recently stated by S&P, *"The Australian Capital Territory's (ACT) stand-alone credit profile reflects our view of the extremely predictable and supportive institutional framework benefiting state and territory governments in Australia"*;
- The Territory's debt issuance program has been very successful since its inception with all debt issuance being supported by a single credit rating opinion. This success has been reflected by strong participation by a range of both domestic and offshore investors, oversubscribed bids for our bonds at issuance (reflecting more demand than bonds available) and an increasingly tighter spread (lower cost of funds) to the benchmark Commonwealth bonds and our AAA rated semi-government peer issuers;
- There has never been a circumstance communicated to us where an investor has been unable to participate in the purchase of our bonds at issuance because of the Territory only having a single credit rating;
- The Territory has the highest long term S&P credit rating (AAA) and is currently only one of three S&P AAA rated semi-governments in Australia. An additional credit rating by an alternate provider is not warranted as this will not result in achieving a higher rating, increase the number of investors seeking to purchase our bonds, or directly influence our cost of funds; and
- The total cost of a credit rating opinion is not insignificant in terms of the contract price, as well as the time and internal resources required for the appointed credit rating agency to complete their review of the Territory's finances. The current annual cost for the Territory's credit rating by S&P is in the order of $130,000 per annum.

2. The use of a second credit rating opinion would have no impact on the decision by investors to participate in a Territory debt issuance transaction and would not influence the process and inputs that ultimately determine the price (yield) for a new Territory bond issue.

   Should the Territory's debt issuance program ever expand to include direct offshore issuance, consideration of seeking at least two independent credit rating opinions would be appropriate at that time. However, should circumstances change in the future the option of engaging a second credit rating opinion in any case remains an option.

Approved for circulation to the Standing Committee on Economic Development and Tourism

Signature: Andrew Barr Date: 15.5.17

Mr Andrew Barr MLA
Treasurer