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Announcement: Moody's: Well-functioning capital markets important to economic growth

Global Credit Research - 20 May 2014

Hong Kong, May 20, 2014 -- Moody's Investors Service says that well-functioning capital markets can help foster macroeconomic stability, access to financial services and the overall development of economies.

"Developed capital markets are good at mobilizing, directing and allocating local and international savings. To be effective, they must offer a menu of risk/return options that is both suitable and useful to various types of investors and investments," says Raymond McDaniel, Moody's President and CEO.

McDaniel was speaking on the release of a new special comment entitled "When Capital Markets Function Well", during a keynote speech to delegates at the inaugural Moody's and Shanghai Advanced Institute of Finance (SAIF) 2014 Credit Market Research Conference in Shanghai on 17 May 2014.

On the topic of the capital markets, while they provide a great number of benefits when they function well, McDaniel states that "The capital market is a system. How well -- or poorly -- each part operates inevitably depends on how the rest of the system is working."

"And one of the crucial ingredients for the overall effectiveness of markets is credit -- which in its simplest form is the trust that enables one party to temporarily provide resources to another market," says McDaniel.

The benefits that better-developed markets can bring include creating an important safety valve in the system for instances where banks are constrained to lend; a more disciplined process for capital allocation; and strong market-based signals that enable investors to monitor the use of and returns on their financings.

McDaniel notes that public policy has an important role to play in establishing the rule sets that make markets deliver these benefits.

"The global recovery is still fragile. In this context, getting financial markets to work well becomes increasingly important," says McDaniel, adding, "A strong overall market design, with appropriate macro-prudential oversight, a sound legal framework, and broad availability of information, can attract and encourage participation by both domestic and foreign investors."

In this context, the international credit rating agencies can also play a role in deepening liquidity.

Credit ratings are useful tools in promoting secondary market liquidity because ratings are a readily available and globally comparable point of reference that can encourage a deeper understanding of credit risk.

"The creation and operation of well-functioning capital markets is a shared responsibility of both the public and private sectors," says McDaniel.

The one-day Credit Market Research Conference, sponsored by Moody's and the Shanghai Advanced Institute of Finance (SAIF), covered a broad range of issues that are shaping the modern global capital markets, including bank risk in the Euro Zone, corporate credit risk in China, and the role played by innovative structured financings in the context of overall market-based finance.

Subscribers can access the report at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_170591

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Raymond McDaniel
President & Chief Executive Officer

Moody's Corporation
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Farisa Zarin
Managing Director
MCO Global Govt & Public Affairs
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Min Ye
Managing Director – Regional Head, Asia Pacific
JOURNALISTS: (852) 3758-1350
SUBSCRIBERS: (852) 3551-3077

Releasing Office:
Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong
China (Hong Kong S.A.R.)
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

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