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**New Approaches to Regulating the Activities of Rating Agencies:**

**a Comparative Analysis**

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**Abstract**

Rating agencies have become an important part of the global financial landscape. Formation of credit ratings is specified by the inherent asymmetry of financial market information and general interest in the transformation of a large amount of diverse and segmented financial information in a simple and clear assessment of the credit surveillance of borrowers that is credit rating. The world financial crisis started in 2008 has again put on the agenda the question of rating assessment accuracy and the factors influencing the rating migration. The activity of rating agencies, until recently, has had little regulation, allowing rating agencies to avoid responsibility for inaccuracies in assigned ratings, while investors were suffering huge losses. Therefore there is an actual question of trust in a rating assessment and the necessity of introduction of elements of control.

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**1. Introduction**

Rating agencies have become an important part of the global financial landscape. The importance assigned to the ratings of participants of all financial markets is difficult to overestimate:

- for enterprises involved in raising funds in global financial markets, the necessity to obtain a credit rating, which provides more flexible conditions to raise funds;
- for investors who focus on high credit ratings of eminent of financial instruments to minimize the risk of investing;

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- increased use of credit ratings by monitoring institutions, further strengthened by the adoption of Basel II, acquired the function of licensing, determining the conditions of access to external financing, the choice of investment instruments for the biggest institutional investors. Thus, the rating agencies have practically turned into inspectors of admission to global financial markets of their main participants.

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In the US, the practice of assigning credit ratings has a history of more than a hundred years, while in the European markets, credit rating services have been developing only during the last two decades. The main reasons contributing to the rapid development of global rating industry are the following: economic and financial globalization conditioned the standardization of risk factors and the need for an adequate instrument for managing investment portfolios; increased regulation of the market capital; development of information and communication technologies to facilitate the process of determining the rating.

The world financial crisis started in 2008 has again put on the agenda the question of rating assessment accuracy and the factors influencing the rating migration. Rating agencies aren't criticised only by the lazy. V.Reding, Eurocommissioner for the legal questions considers that Europe shouldn't allow the three USA private companies (Moody's, Standard and Poor's and Fitch) to scoff at its own economy. He suggests to shatter these three "whales" of credit-rating sphere into six, and to create own rating agency in Europe. The head of committee of banks of the USA Senate T.Dzhonson characterized the activity of rating agencies as "irresponsible". J. Sanio, President of the Federal Financial Supervisory Authority of Germany (BaFin), believes that the rating agencies represent the largest unregulated force in the global financial system. The commission on securities and stock exchanges of the USA (SEC) has recently checked up the work of ten rating agencies (among which there were also three "whales") and has specified a variety of methodological and organizational problems in their activity that questions their competence.

If to study criticism of the international rating agencies for two periods — 2008-2009 and 2011 attentively, a rather paradoxical picture turns out. Three years ago agencies were accused of total, wrongful overestimation of ratings, excessive softness. Now the situation has changed: after decrease of some state ratings (the European countries and even the USA) the criticism has sharply changed its orientation. Now agencies are accused of excessive rigidity, and decrease in ratings becomes the reason of aggravation of financial problems in the separate countries, banks and the companies.

The economic function of the international rating agencies consists of transferring the signals of various risk levels to market participants, thus providing investors with the possibility of correcting portfolios and finding the balance between the risk and profitability in the short term. The basic function of the international rating agencies consists of stabilisation of the markets, but not in their destabilisation. However the opposite takes place in practice, and there is an explanation to it:

- Dynamics of ratings have a clearly pro-cyclic character: ratings grow in a high conjuncture and fall during years of economic crises, strengthening pessimistic expectations of market participants;
- The ratings themselves can carry the function of self-fulfilling prophecies;
- Rating changes very frequently don't occur ex ante, on the basis of the new information, but appears ex post i.e. after there is a change in tendencies in the market. The international rating agencies «reflect past events» (Elkhoury, 2007; Raminsky and Sergio, 2002) instead of forecasting them. This is the tendency both of the financial crisis of 1997-1998, and the present financial crisis.

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