Press release | 16.01.2013

Credit rating agencies

Downgraded deal on new EU rules approved, as opportunity missed for more ambitious regulation

The European Parliament today endorsed a final legislative agreement on new EU rules on credit rating agencies. The Greens believe the new rules represent another step forward for regulating this influential sector but regretted it was not possible to achieve more ambitious provisions to change the market structure, improve transparency and to prevent conflicts of interest. Commenting after the vote, Green finance spokesperson **Sven Giegold** said:

“This new legislation on credit ratings agencies is another step forward for regulating this small but influential sector for our economies, which is playing a prominent role in the current sovereign debt crisis. However, the EP's greater ambition for the legislation has sadly been seriously downgraded by Council during the process. We regret that the new rules are not more ambitious in terms of addressing the market power of the 'big three' agencies and potential conflicts of interest.

"While the agreement will improve the transparency of ratings, proposals to move from the current problematic and simplistic letter-based system (AAA) to a figure-based system, giving greater transparency on the situation and the likelihood of default, were seriously weakened. This is a missed chance to truly improve the transparency of ratings, making information on the rated entity and the likelihood of default clearer and reducing the sentiment attached to the 'triple A' rating.

"The rules also fall short of tackling potential conflicts of interest. The Greens wanted to prevent the crossholding of shares in rated entities but the final rules allow crossholdings of up to 10%. The Greens would also have preferred clearer provisions to make financial markets less reliant on ratings agencies.

"Importantly, rating agencies will have to refrain from issuing policy recommendations or prescriptions to sovereign states under the final rules. The legislation also includes a reference requiring the Commission to assess the possibilities for an independent European rating foundation, which the Greens believe would be crucial for addressing the 'big three' dominance. We hope the Commission will act swiftly. The current situation, where these three agencies have a 95% market share and 40% return on sales, cannot be accepted in a social market economy."

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Sven Giegold

Member

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