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Ratings agencies rules

Commission finally tackles disruptive role of rating agencies but proposals lack courage

The European Commission will today present proposals aimed at tightening up EU-level regulation of credit rating agencies (CRAs). The Greens welcomed some aspects of the leaked proposals but expressed regret that the Commission has not gone further, earlier, to address the disruptive role of the big three agencies and to strengthen competition in the sector. Commenting on the proposals, Green finance spokesperson **Pascal Canfin** said:

"Cack-handed, false ratings of structured finance have been a key trigger of the financial crisis, while volatile ratings of sovereign debt, at odds with economic fundamentals, have amplified the debt crisis. While we welcome that the Commission is belatedly moving to tackle the disruptive role of the big three rating agencies, particularly as regards sovereign debt, today's proposals lack courage and fail to deliver the fundamental change that is needed in the sector.

"Obliging financial institutions to reduce their reliance on external ratings, thereby reducing the power of the CRAs, is certainly important but internal ratings also have shortcomings, and the methodology, transparency and supervision of these need to be improved. It was high time to propose tough civil liability provisions. The existing conflict of interests of the issuer pays model is addressed through measures such as the rotation of agencies and analysts, but the Commission has fallen short of fully resolving the problem, notably through alternative models less prone to conflicts of interest.

"Strengthening the power of the European Securities and Markets Authority is necessary but the failure to give it the promised power to suspend sovereign debt ratings is a major shortcoming. In any case, simply strengthening ESMA will not in itself solve the problem. The proposals set out no comprehensive solution to the volatility of sovereign debt ratings: there is no provision for prohibiting or at least restraining overly volatile ratings, and no move to create a European agency. The oligopoly of the big three agencies is bound to persist, which is bad for the economy. The proposals also miss the opportunity to address rules on remuneration now; instead, this is kicked to the long grass."

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