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Credit rating agencies

Draft EU rules strengthened by MEPs but dominance of 'Big 3' remains a concern

The EU Parliament's economic affairs committee today voted on draft legislation revising EU rules on credit rating agencies. The Greens welcomed the move to increase the transparency and comprehensibility of the ratings system - notably by complementing the current letter-based with a number-based rating system - but regretted the failure to do more to tackle conflicts of interest and the dominance of the 'big three' rating agencies under the draft legislation. After the vote, Green finance spokesperson **Sven Giegold** said:

"MEPs have today voted to improve the transparency of ratings. Under the proposals adopted today, the current problematic letter-based rating system (e.g. AAA) would be complemented by an additional, more logical figure-based system, revealing default probability. This will help improve the transparency of ratings, making information on the rated entity and the likelihood of default clearer and devoid of the sentiment attached to the triple A' rating.

"However, the draft rules still fall short of what is required to tackle the dominance of the 'big three' agencies and address conflicts of interest in the way they operate. The prominent role of ratings agencies in the context of the current sovereign debt and financial crises in Europe has underlined the need to revise the way the sector is regulated. Today's vote unfortunately only partially achieves this goal.

"Importantly, the committee voted in favour of Green proposals to ensure ratings take a broader view of risk, for example environmental risk. MEPs also called for steps to be taken to create an independent European rating foundation.

"While we welcome provisions to make financial markets less reliant on ratings agencies, we regret the failure to take stronger measures to address conflicts of interest in the agencies. The Greens wanted even stricter rules on crossholding of shares to prevent conflicts of interest but, regrettably, the majority of MEPs failed to support this.

"Overall, however, this legislation should only be seen as a step to reforming the rating system and addressing the unhealthy dominance of the big three."

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Sven Giegold

Member

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