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[Press release](#) | 28.11.2012

Credit rating agencies

New EU rules another step forward but opportunity missed for more ambitious regulation

European Parliament and Council negotiators reached an agreement last night 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 change the market structure and to prevent conflicts of interest. Commenting on the outcome, Green finance spokesperson **Sven Giegold** said:

"The new legislation on credit ratings agencies, agreed last night, 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, we regret the new rules are not more ambitious in terms of addressing the market power of the 'big three' agencies and potential conflicts of interest.

"The agreement will improve the transparency of ratings, notably by complementing the current problematic letter-based rating system (e.g. AAA) with an additional, more logical figure-based system, revealing historical default probability data. This will help improve the transparency of ratings, making information on the rated entity and the likelihood of default clearer and reduce the sentiment attached to the 'triple A' rating.

"The rules fall short of tackling potential conflicts of interest however. 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 also have to refrain from issuing policy recommendations or prescriptions to sovereign states under the final rules. The legislation also calls for ratings to take a broader view of risk, for example environmental risk. They also include 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 this will be acted on."

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Sven Giegold

Member

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