

Regulation of Credit Rating Agency: Accountability and Conflict of Interests

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Abstract

In the financial market, the use of credit rating agencies to supply information concerning the credit worthiness of a corporation or financial products (such as credit derivatives and mortgage-backed securities) would facilitate the raising of capital for the issuers and reduce information cost for the investors. As credit rating agencies would significantly influence the decisions of the investors to assess credit risk, the accuracy of ratings and the issues regarding conflict of interests between the CRAs and the issuers would consequently lead to financial scandals and systemic risk.

Since the global financial crisis began in 2007, it is evident that credit rating agencies have played an essential part in the collapse of the subprime mortgage market. In the wake of this crisis, several leading regulatory reforms in U.S and EU have been developed and implemented as well as other international organizations such as IOSCO. This article mainly focuses on the weakness of accountability of CRAs and conflict of interests between CRAs and the issuers. The main theme of this work is to analysis these current developments and to identify the major obstacles to improve the credit rating industry.

Keywords: credit rating agency, systemic risk, subprime mortgage crisis, accountability, conflict of interests

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