

Rethinking the Regulation and Control of Credit Rating Agencies in Taiwan

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Abstract

Inaccurate credit ratings are caused in large part by the “issuer pays” system, in which the credit ratings agencies (CRAs) are paid by the parties, whose products are being evaluated, thus creating an obvious conflict of interest. In order to resolve this problem in Taiwan, this paper argues that the Securities and Futures Investors Protection Center should become an intermediary between the issuer and CRAs, whereby issuers of securities pay the Securities and Futures Investors Protection Center for choosing CRAs. Although many scholars have suggested the CRAs should be subject to liability for bad ratings, yet this paper still proposes disclosure-based regulation to increase CRAs disclosure because liability systems are overly complicated and ineffective in deterring bad ratings.

Keywords: credit rating, credit rating agencies, fraud, capital market, asymmetric information, conflict of interest, independence, accountability, materiality, financial market

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