

Abstract

The Regulation of Credit Rating Agencies

The thesis is concentrated on the regulation of credit rating agencies and aims to contribute to a current discussion regarding the future of credit rating agencies. A primary focus of the work was to explore whether a negative role of credit rating agencies in current crisis was caused by their insufficient, unnecessary or unsuitable regulation. An evaluation of sufficiency of newly adopted regulation with respect to the effective functioning of the rating market was chosen as an additional purpose of research.

For the fulfillment of the stated aim analytical and comparative methods and synthesis were used. The style of the thesis falls within the Law and Economics approach. The research is based on EU and US legal norms, legislative documents of the European Commission and legal jurisprudence.

Part I describes the emergence, development and the functioning of credit rating agencies, structure of rating market and legal meaning of the rating. Part II analyzes the ratio for regulation of credit rating agencies from the perspective of economic analysis of law. Mainly, whether agencies fulfill their function, what could potentially restrain them and how can be regulation helpful in this field. Part III compares and examines current regulatory reform of credit rating agencies in the US and the EU. Finally, Part IV evaluates whether adopted legislation in USA and EU remedies failures of credit rating agencies' functioning and presents view on possible future regulatory development.

Based on the performed analysis, the conclusion was made stating that the adverse role of credit rating agencies in financial crisis was caused by insufficient regulation in connection with a widespread use of ratings within financial regulation. Regulatory reform adopted as a response to financial crisis partly remedied existent rating market failures. Nonetheless, it is necessary to review newly adopted norms. Further steps in regulation of rating business are expected. However, there is a real concern with respect to potentially excessive regulation that could restrain credit rating agencies from fulfilling their main role, i.e. diminishing the information asymmetry.