Credit rating agencies: regulation, critical aspects and reform perspective

Abstract

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Abstract

Credit rating agencies have gained increasing attention in the last few years thanks also to the international crisis of sovereign debt. One of the main evidences is that agencies act in a condition of oligopoly with an important impact on financial markets; despite the dull evaluation procedures and methodologies, and regardless of the actual conflict of interest, credit rating agencies are still considered trust worthy in the actual unpredictable financial markets.

This works starts with an analysis of the history of rating and agencies; then the study focuses on rating in capital markets, on its mechanism, and on the effects of ratings on sovereign debt. The study of the potential conflict of interests is then followed by an analysis of the legislation at international and European level. The dynamics of credit markets for local authorities complete the framework proposed, with an analysis of the risks and opportunities deriving from structured finance and an investigation of the recent downgrades from credit rating agencies.

The work concludes analyzing the recent changes in the specific legislation, pointing out how rating agencies exert a function that completes and integrates financial regulation determining both the interest rate that the issuer has to pay on his debt, but also the body of norms and rules the issuer and the debt are subdue.

Ratings have then become more and more significant in credit markets under a condition of substantial and unchanged juridical impunity of agencies. A similar scenario requires instead a rigorous regulation in order to impact on different and important problems regarding ratings, such as the conflict of interest, the reliability of ratings of major agencies and a general opacity on information.