Press release

Credit rating agency reform: sovereign debt ratings to be regulated

Committees: Committee on Economic and Monetary Affairs

Draft legislation to regulate credit rating agencies and reduce reliance on their ratings was voted in the Economic and Monetary Committee on Tuesday.

MEPs sought to ensure that the legislation injects more responsibility, transparency and independence into credit rating activities, and helps to enhance the quality of ratings issued in the EU, thereby improving protection for users and investors.

"The debt crisis in the Eurozone has shown that credit rating agencies have gained too much influence, to the point of being able to influence the political agenda. In response we have strengthened rules on sovereign debt ratings and conflicts of interest", said Leonardo Domenici (S&D, IT), the MEP steering the reform through Parliament,

Sovereign debt ratings to be regulated

Since sovereign debt ratings affect the credibility of states, and hence their borrowing costs, MEPs see a need to regulate their quality, timing and frequency These ratings should reflect each country's specific characteristics, and should in no way advocate policy changes, they add.

MEPs inserted amendments to require each agency to prepare and publish an annual timetable of dates for publishing its sovereign ratings, so as to give states time to prepare for them.

This timetable would have to comply with the general rule that sovereign credit ratings may be published only after close of business in all trading venues established in the EU and at least one hour before they reopen.

European creditworthiness assessment

MEPs also decided to take the first step towards developing an internal public rating capacity at EU level. The task of creating an independent EU creditworthiness assessment will be entrusted to the existing EU institutions. They will have to provide investors with all relevant, publicly-disclosed data and ratings regarding the sovereign debt and key macroeconomic indicators.

Reducing over-reliance on ratings

At the same time, over-reliance on ratings should be reduced, say MEPs. All regulated financial institutions, such as banks, insurance companies, and investment fund managers, would be required to develop their own rating capacities, to enable them to prepare their own risk assessments and thus not rely entirely on external ones.

Furthermore, no EU law would be permitted to refer to credit rating for regulatory purposes, and regulated financial institutions would not be permitted to sell assets automatically in the event of a downgrade.

Agencies' responsibility for ratings

Agencies themselves would be required to ensure that their ratings are impartial, and of high quality. They could be held liable for their ratings in civil law, so that an investor whose interests were harmed when buying or selling a rated instrument could sue the rating agency if it could be shown that it had made methodological mistakes or committed other infringements specified in the EU regulation. The civil law rules applicable would be those of the investor's country of residence when the damage occurred.

The European Securities and Markets Authority would check rating methodologies, and ratings themselves would have to be presented in numbers. They would also have to indicate the probability of default and be accompanied by an explanatory statement.

Reducing the scope for conflicts of interest

To reduce the scope for conflicts of interest, an agency would not be permitted to issue ratings on entities that own more than 2% of its capital or voting rights.

Furthermore, no holder of more than 5% of an agency's capital or voting rights could hold shares in another rating agency. If such a situation arose, it would have to be disclosed by the agencies in question.

Mergers of credit rating agencies would also be subject to strict rules.

Next steps

The vote enables MEPs to open negotiations with the Member States to hammer out a deal between the two sides.

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