

Lessons From The Current Financial Crisis: Should Credit Rating Agencies Be Re-Structured?

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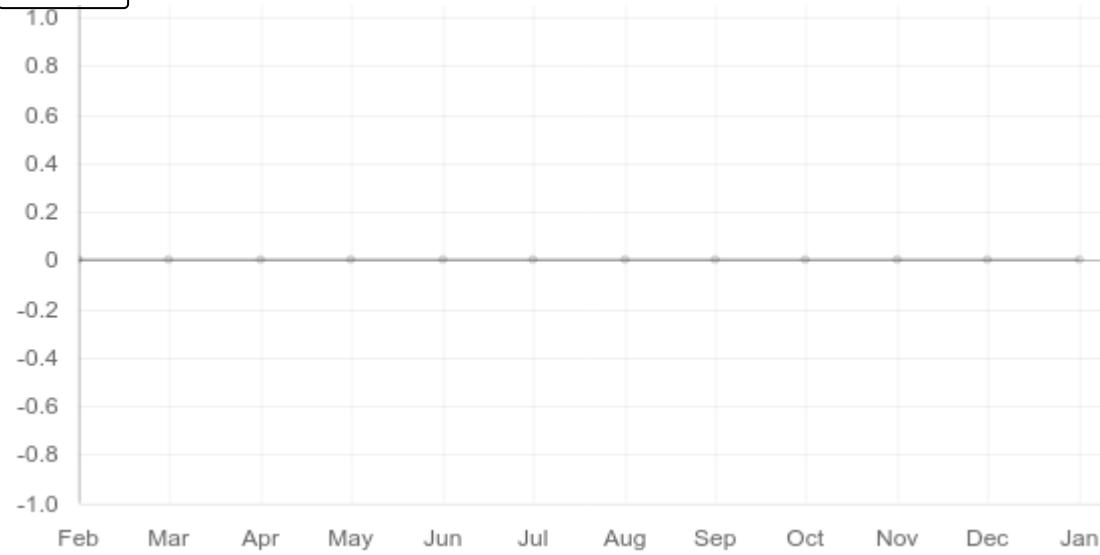
Keywords

Reforming the Credit Rating Agencies

Abstract

Credit rating agencies are considered the gatekeepers to the financial markets; however, these agencies have come under increasing attack in the past few years by investors, regulators and the business community. The United States Senate has accused the credit rating agencies of flawed methodology, weak oversight by regulators, conflicts of interest and a total lack of transparency. The Senate review concluded that the problems with the credit rating agencies were responsible for contributing to the housing bubble by awarding AAA ratings to complex, unsafe asset backed securities and other derivatives, thereby magnifying the financial shock when the housing bubble finally burst. In this article, we will explore how the credit rating agencies obtained, and, as many feel, misused their power. In addition, we will outline currently proposed legislative and regulatory solutions.

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