

Credit rating agencies and global financial crisis: Need for a paradigm shift in financial market regulation

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Abstract  References  Citations  Supplementary Data

Purpose - This paper attempts to identify the areas for further research related to regulating credit-rating agencies (CRAs), in order to assess whether the prerequisite for a "complete change" is present so to achieve a genuine paradigm shift on the matter. **Design/methodology/approach** - An overview of the unregulated background of CRAs is presented followed by the European Union's and USA's regulatory initiatives together with a critical assessment of the former and an identification of the substantive areas for further thinking. **Findings** - The adequacy of the recent CRAs regulation is questioned in the light of the need to take account of crucial elements such as scope, use of methodologies, due diligence and the regulatory reliance on ratings. A definition of competition is also warranted as well as a questioning of the "issuer pays" model and an assessment of the impact of ratings on systemic risk. An alternative regulatory response could take a more general view of regulating the credit-rating activity as a whole and on a world wide scale. **Originality/value** - This paper identifies areas for further research needed for an assessment of the most suitable regulation for the credit-rating activity. Also, the paper focuses on the need to better understand the complicated nature, functioning and impact of CRAs in the financial system in order to map the different challenges for regulators, politicians, practitioners and academics.

Keywords: Credit rating; European law; Financial markets; Regulation; World economy

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