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Regulation of Credit Rating Agencies in the United States of America

An analysis from a principal agent perspective



Abstract

Although credit rating agencies play vital roles in the global financial markets they are constantly facing severe criticism. In response to the financial crises within the last decades, the US regulator regularly adjusted the legislation aiming on the regulation of credit rating agency. Despite the fact that credit ratings are mostly used to solve agency problems, little amount of research exists, applying agency theory as an analysis framework. This research project outlines two agency models, identifies five criteria that ensure operational capability of the models, and verifies the criteria against the decisive US legislation in order to assess its ability to sufficiently address agency problems. The results yielded strong evidence that the existing credit rating agencies regulation in the US is not able to address agency problems sufficiently and that the regulatory framework in the US is not able to avoid actions that are unfavorable for investors.

Keywords: credit rating agency, US regulation, agency theory, agency problem