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THE PRESIDENT OF THE GENERAL ASSEMBLY

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Statement of H.E. Mr. Vuk Jeremić, President of the 67th Session of the General Assembly, at the Closing of the Thematic Debate on the Role of Credit Rating Agencies in the International Financial System

Delivered on behalf of the President of the General Assembly by the Acting President

Excellencies,
Ladies and Gentlemen,

We have concluded our thematic debate on the role of credit rating agencies in the international financial system. I am very pleased with the rich discussions that were held in this first debate within the United Nations on this critical issue. I wish to thank the Moderators and our excellent panellists and speakers, representing both the public and the private sector, for the high quality of the discussions which we enjoyed today.

Today we heard of the essential role of credit rating agencies in the international financial system, of the usefulness of ratings for healthy capital markets, and of the access to credit that these ratings facilitate for borrowers, large and small. Evidence presented indicated that ratings on corporate debt have been relatively accurate; however, there was some disagreement on the accuracy of ratings on sovereign debt; there was general agreement that ratings on certain structured products have not been fully accurate. It was argued that not properly assessing the inherent risk of CDOs and related products may have contributed to the subprime mortgage crisis.

In this connection, the discussion highlighted several shortcomings of the credit rating industry, notably:

- First, a high reliance on ratings in public policies and regulatory structures. A challenge is how to replace the focus of ratings in regulations.
- Similarly, there is a "mechanistic" reliance of investors on ratings.
- Third, the high level of concentration of the market and the resulting lack of competition. A challenge to be considered, though, is how to increase competition given the long time frame of new agencies to build reputations.
- Fourth, low transparency and missing harmonization of rules;
- Fifth, conflicts of interest, particularly due to the "issuer pays" model;
- Sixth, the pro-cyclical role of ratings and cliff effects; a challenge is how to reduce this given the forward looking nature of ratings, which ties them to global economic trends
- Finally, ratings, particularly for sovereign debt, wield considerable influence on the ability to borrow and finance development. This is particular problematic for corporations in developing

countries and emerging economies. Many developing countries remain unrated for a range of reasons.

Many of these shortcomings have been recognised by credit rating agencies themselves, who have urged investors to reduce their reliance on ratings and have welcomed increased competition, and have invested substantially in improving methodologies.

Governments' responses to these shortcomings have been twofold. A number of countries have already undertaken important reforms, such as in the United States, the European Union, Argentina, Japan and other, i.a. through increased transparency, registration and oversight. Several initiatives have also been undertaken at the international level, such as the "Principles for reducing Reliance on Credit Rating Agencies" proposed by the Financial Stability Board and approved by the G20.

Nonetheless many challenges remain. We thus heard several promising proposals to improve the credit rating industry, including the following:

- The creation of a United Nations Observatory of credit rating service providers to certify credit rating products and build consensus on common standards for rating methodologies. However some speakers expressed concern that this initiative would introduce an unnecessary element of supra-nationality into a market-driven process.
- The establishment of a global rating platform based on a uniform rating scale
- Initiatives for investors to better understand the role of ratings and better use of ratings, as well as calls on issuers to provide more information related to their creditworthiness.
- Specific measures to increase competition. In that context, it was mentioned that regulatory policies, such as CRA 3 introduced by the EU can play a facilitating role in the emergence of new rating agencies.
- In addition, there were suggestions to set up public agencies. There was some scepticism on public agencies, particularly due to new conflicts of interest and possibly reducing competition. However, others suggested that public agencies can be included as one alternative, which could be seen as increasing competition.
- To address conflict of interest, alternative structures, such as investor organizations that collectively request ratings under an "investor pays" model, as well as the public option, were suggested.
- The role that CRAs could play with regard of facilitating developing countries' access to capital.

We hope that this important debate will contribute to a dialogue at the United Nations that will further contribute to improving the international financial system as an essential means of implementing sustainable development. In addition, our deliberations will provide major inputs for the post-2015 development agenda of the United Nations, as well as to the Intergovernmental Committee of Experts on Sustainable Development Financing.

Let me thank you all once more for your contributions to this discussion.