Proposal for a Regional Credit Rating Agency for Asia

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Proposal for a Regional Credit Rating Agency for Asia

• To help promote capital market development
• To help channel regional savings to regional investments
Proposal for a Regional Credit Rating Agency for Asia

• A radical proposal
• No other truly regional credit rating agencies
• Credit rating agencies one of the villains of the global financial crisis
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• In fact, credit rating agencies have played a positive role in the growth of international financial markets

• But their role in the markets for structured products questionable
Criticism of Credit Rating Agencies

- Quality of models, oligopoly market structure, incentives problem of an issuer pays system
- Move to supervise them. G20 leaders said “we will exercise strong oversight over credit rating agencies”. De Larosiere Group. Turner Review. Supervision by European system of Financial Supervisors
Credit rating in Asia

• International CRAs only provide ratings for limited and insufficient number of Asian companies. Lack local regional knowledge

• Despite good work of Association of Credit Rating Agency in Asia (ACRAA), Asia’s domestic CRAs’ ratings are not comparable across borders in terms of rating methodology, rating criteria, definitions, benchmarks and the overall rating process
Proposal for a Regional Credit Rating Agency for Asia – Key Elements

- ASEAN+3 initiative, bringing together main surplus and deficit savers
- An intergovernmental initiative -- eliminate incentive problem of issuer-pays model
- Independent like a central bank -- necessary to rate effectively government debt and corporate debt
- Key participant in a future Asian Financial Stability Dialogue process
- Build on process of regional co-operation among Asian domestic CRAs through ACRAA.
- Add competition to industry
Proposal for a Regional Credit Rating Agency for Asia -- Conclusion

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