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THE CRISIS IMPACT ON INTERNATIONAL RATING AGENCIES: NEW TENDENCIES AND PROBLEMS

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Abstract

This article deals with the history of the creation of the international rating agencies and their role in market economy. The authors have also presented their research on the methodological aspects of rating creation and factors affecting it as well as the possibilities of practical application of the acquired assessments in the risk management process.

Introduction

The world financial crisis started in 2008 has again put on the agenda the question of rating assessment accuracy and the factors influencing the rating migration. Rating agencies aren't criticised only by the lazy. V. Reding, Eurocommissioner for the legal questions considers that Europe shouldn't allow the three USA private companies (Moody's, Standard and Poor's and Fitch) to scoff at its own economy. He suggests to shatter these three "whales" of credit-rating sphere into six, and to create own rating agency in Europe. The head of committee of banks of the USA Senate T. Dzhonson characterized the activity of rating agencies as "irresponsible". The commission on securities and stock exchanges of the USA (SEC) has recently checked up the work of ten rating agencies (among which there were also three "whales") and has specified a variety of methodological and organizational problems in their activity that questions their competence.

If to study criticism of the international rating agencies for two periods − 2008-2009 and 2011 attentively, a rather paradoxical picture turns out. Three years ago agencies were accused of total, wrongful overestimation of ratings, excessive softness. Now the situation has changed: after decrease of some state ratings (the European countries and even the USA) the criticism has sharply changed its orientation. Now agencies are accused of excessive rigidity, and decrease in ratings becomes the reason of aggravation of financial problems in the separate countries, banks and the companies. Where is the truth?

The economic function of the international rating agencies consists of transferring the signals of various risk levels to market participants, thus providing investors with the possibility of correcting portfolios and finding the balance between the risk and profitability in the short term. The basic function of the international rating agencies consists of stabilisation of the markets, but not in their destabilisation. However the opposite takes place in practice, and there is an explanation to it:

- Dynamics of ratings have a clearly pro-cyclic character: ratings grow in a high conjuncture and fall during years of economic crises, strengthening pessimistic expectations of market participants;
- The ratings themselves can carry the function of self-fulfilling prophecies;
- Rating changes very frequently don't occur ex ante, on the basis of the new information, but appears ex post i.e. after there is a change in tendencies in the market. The international rating agencies "reflect past events" (Elkhoury, 2007; Raminsky and Sergio, 2002) instead of forecasting them. This is the tendency both of the financial crisis of 1997-1998, and the present financial crisis.

The above mentioned problems have essentially questioned trust in the activity of international rating agencies. The rating is a very influential instrument of assessment which has a very strong impact on the behaviour of the investor .Rating agencies don't have moral responsibility for the owned and offered assessments as well as for the possible losses of the investor. Therefore there is an actual question of trust in a rating assessment and the necessity of introduction of elements of control. On the other hand, the introduction of mechanism of control questions the principle of "independence" of a rating assessment. According to the authors of the article the solution of this problem is connected with the questions of implementation of methodology used by a rating agency, as well as the question of how quickly a rating agency is capable of reacting to changes which have occurred in the object of research.

The object of research is the activity of international rating agencies and the ratings owned and offered by them.

The aim of the article is to analyse the evolution of ratings, their role in assessment of risks, the basic tendencies and problems in activities of international rating agencies at the present stage, and to suggest improvements of their activity and increase of trust in rating agencies.

Research tasks:

1) to analyse the evolution process of ratings and other rating processes;
2) to analyse the drawbacks in the activity of the international rating agencies at the present stage;
3) on the basis of the given analysis, to make conclusions and work out suggestions for the improvement of the international rating agencies activity and increase public trust in rating agencies.

While working on the article the authors used the following research **methods**: generally accepted quantitative and qualitative methods of research in economic science, including comparative analysis and synthesis, and graphical methods.

Evaluation of Ratings and Rating Processes

A rating is a complex risk assessment of a firm, bank, insurance company, share fund, state, region, issue of bonds and other financial tools on the discrete ordered scale which is called a rating scale.

The Latvian word 'reitings' is derived from the English word rating which means assessment or defining the value and belonging to a certain rank or category. Ratings of a state, region, enterprise or commercial bank show the subject's security, stability and solvency. The directions of formation and development of rating systems involve the following economic components:

- production field (acquisition, transport, communication services enterprises and others);
- financial field (commercial banks, insurance companies, investment funds etc.);
- market of goods.

The authors of the article have the opinion that ratings have an informative function and assist to work out a long-term strategy of activity. Ratings are part and parcel of business information, can insure trust in business, and are good indicators for investors and other interested persons.

Rating system formation foresees rating approach to determination and publication of methodological and technological characteristics. First of all it is necessary to define certain aims and directions of the rating, subjects of the rating as well as methodological characteristics, process of research and its figures, regional and field characteristics structures, hypothesis and restrictions, types of presentation and distribution terms, commercial base.

Formation of ratings is a special kind of activity which has essential demand in the market economy. The specialised rating agencies deal with formation of ratings, their main task is information intermediary by supporting the systems of ratings .The famous rating agencies, which make assessment of commercial banks are *Standard&Poor's*, founded in 1860, *Moody's Investor Service*, founded in 1914 and *Fitch IBCA* reorganised in 2000 after take over by *Thomson Financial BankWatch*.

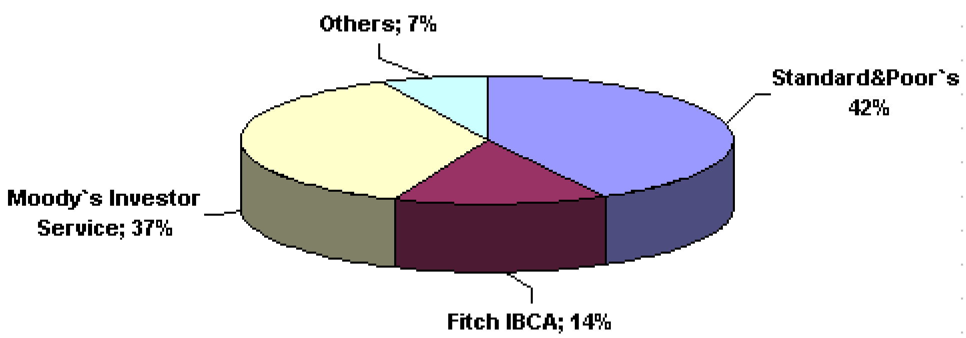

Figure 1. Division of the global market of rating services

Source: *www.standardandpoors.com, www.moodys.com, www.fitchrating.com*

In the course of evolution of ratings and rating agencies it is necessary to specify the decision of the United States Securities and Exchange Commission in 1975, according to which some rating agencies became "nationally recognised statistical rating organizations" (NRSRO). The existence of this list is one of the reasons that a number of rating agencies isn't big, despite of high profitability of this business[1].

Prior to the beginning of seventies of the 20th century the majority of rating agencies received income by selling the ratings to bond holders. Since 1970 *Moody's Investor Service* and *Fitch IBC* have started taking payments from emitters for exhibiting of a rating to issue bonds. Some years later their example was followed by *Standard&Poor's* (White, 2002). Now *Moody's* and *Standard&Poor's* own and publish ratings to all releases of the corporate bonds registered by SEC, using only the public information. Such ratings are called *"ratings without a demand"* (unsolicited ratings). On demand of the emitter and under condition of payment rating agencies carry out more detailed analysis of a condition of the emitter and offer *"a rating on demand"* (solicited rating).The fee for the services of rating agencies is from 25 thousand to 130 thousand US dollars (White, 2002). Their fee also depends on the chart of payment and type of a rating.

The main service principles of international rating agencies are independent assessments, publicity and availability, collective nature, interactivity, confidentiality of the information, use of rating scales which allow to compare the subjects of ratings. It is necessary to point out that the rating carries out the function of *transformation* (Солодков, 2010) of great amount of information into public opinion referring to the classification group of the subject. Actually the main activity of a rating agency is to perform the role of an information intermediary. Based on the analysis of techniques of rating agencies, the process of assignment of a rating consists of the following steps:

- Classification of subjects of ratings;
- Working out a technique of forming the ratings;
- Shaping the models of assessment of each factor at the basis of the objective data (audited financial reports) and the subjective (expert) data;
- Receiving the integrated assessment;
- Consideration of results by a rating committee and taking a decision on referring the subject to a certain rating category;
- Agreeing to the decision taken with the rating subject (the appropriated rating can remain confidential);
- Release of a rating report.

The international rating agencies offer various rating products (see Table 1). The leading role is played by the credit ratings based on the opinion of a credit agency about the general credit status of the borrower. Credit ratings are used both by investors and borrowers as well as financial intermediaries. Rating agencies also publish ratings on national scales. The basic difference consists in recording of sovereign risks for the international ratings which are connected with the insolvency of the state, i.e. recording of direct or indirect impact of this

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[1] According to the official reports the income of agencies in 2008 are estimated: Standard&Poor's – 2.0 billion dollars, Moody's Investor Service – 1.4 billion dollars, Fitch Ratings – 630 million euro.

factor on the level of solvency of the company. It is necessary to specify that the sovereign rating of the state is the so called "ceiling" for a rating of companies in the given country.

Table 1

Rating types of international rating agencies

Name of a product	Rating agency		
	Moody's	***Standard&Poor's***	***Fitch IBCA***
Long-term credit (deposits)	+	+	+
Short-term credit	+	+	+
Financial stability	+		+
Bonded loan obligations	+	+	+
Corporate governance	+	+	
Supports			+
On national scales	+	+	+

Source: *www.standardandpoors.com, www.moodys.com, www.fitchrating.com*

Granting of a wide range of services by rating agencies is connected with the influence of the following factors (Langohr, 2008):

- Development of financial intermediary which stimulated development of credit ratings;
- Investing resources in various financial instruments and using rating products for decrease of a risk level;
- Globalisation of the financial markets stimulated the necessity of assessment of counterparts with the aim of simplifying the process of decision-taking;
- Introducing of new structured products (financial innovations).

Regulation is the Answer to the Activity Drawbacks of Rating Agencies

The global financial crisis has revealed a number of problems in management of a considerably extended financial system. In the first decade of this century, new instruments have been created. On the one hand they provided a higher profit but on the other hand – raised the level of risk at the expense of the threat of growing "bubbles" of the prices for the actives that couldn't estimate adequately both regulating instruments and rating agencies.

Representatives of rating agencies very often declare that they have a deep analytical knowledge and "a critical amount" of the experience, necessary for an adequate assessment. Practice shows that agencies regularly make the errors leading to financial losses of investors. It is enough to mention loud corporate scandals of 2000th years when apart from agencies the auditors got mixed up too, such as *Enron*, *WorldCom* and *Parmalat*. The irresponsible and ambiguous attitude of rating agencies to the provided bonds became one of the main reasons of the American mortgage crisis. Failures in assessments, failures in statistics of rating agencies of developing countries, failures in statistics of the Conference of the United Nations on trade and development, were even greater (see Table 2).

Table 2

Statistics of failures of rating agencies
(Number of steps of a rating on which one-time revaluation of a sovereign rating has been made)

States	**Year of crises**	***Standard&Poor's***	***Moody's Investor Service***
Thailand	1997	4	5
Indonesia	1997	7	6
The South Korea	1997	10	6
Malaysia	1997	5	4
The South Korea	1998	4	-
Rumania	1998	3	3
Russia	1998	3	4
Moldova	1998	-	3
Argentina	2000	4	-
Uruguay	2002	5	6

Source: Elkhoury, 2008

The international rating agencies are accused of **non objectiveness** of the appropriated ratings. It would be desirable to cite several examples.

In the USA there is a double deficiency (both the balance of payments of current operations, and the federal budget) which is financed at the expense of capital inflow from abroad. Thus if the size of deficiency of the balance of payments of current operations in crisis tends to reduce (throughout 2006-2008 it decreased from 788.1 billion dollars to 568.8 billion dollars) (CIA, 2010), on the contrary deficiency of the federal budget of the USA promptly increases. If in 2004-2007 it fell from 412.7 billion dollars to 162.0 billion dollars, in 2008 it reached 454.8 billion dollars (FMS, 2008), and only in the first quarter of a new fiscal year it reached a record amount of 485,2 b. dollars and following the results of 2009 it can approach 1.2 billion dollars (CNNMoney, 2009). The events of September-October in 2008 became the turning point when the two backbone investment banks of the USA left the market (absorption of *"Merrill Lynch"*, bankruptcy of *"Lehman Brothers"*). It has been the largest failure of the American financial regulation since the Great Depression. Though more than 40 banks went bankrupt in the American market in 2008, deficiency of the state budget of the USA grew considerably, and investors suffered losses, estimated in trillions of dollars, but <u>none of the agencies declared the revision of a rating of the United States</u>! Only in April, 2011 the international rating agency *Standard&Poor's* declared the decrease in the forecast of sovereign credit rating *AAA*[2] from "stable" to "negative", having caused a real shock and panic in the world of finance. The agency has declared that there is 33% probability of the fact that in the

[2] The USA rating AAA was appropriated on January 1, 1941 and has never been changed.

nearest couple of years the credit rating of the USA will be reduced. The credit rating of the USA has been lowered to AA in August, 2011.

Speaking about Japan, whose external debt makes 204 % of the Gross National Product, the international rating agency *Standard&Poor's* only in January, 2011 (for the first time in 9 years) declared rating decrease on one rating category – to level AA-.

The international rating agencies started to reduce a sovereign rating of Latvia in 2008 (see Figure 2) as soon as there were the first signs of imbalance of a macroeconomic situation.

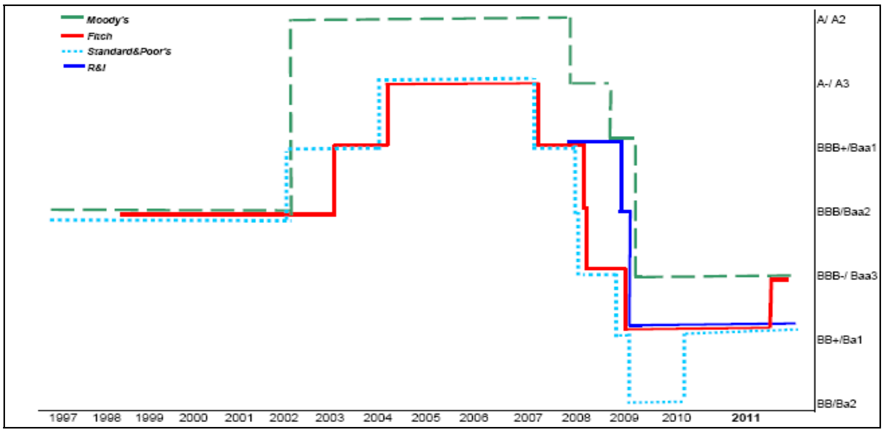


Figure 2. Dynamics of credit rating of Latvia in 1997-2011

Source: *www.kase.gov.lv*, 2011

In the economic science the activity of rating agencies are connected with a *moral hazard*, risk of *adverse selection* because of the asymmetry of the information and the *principal—agent problem* (Моисеев, 2009). In practice the claims to the agencies are the following:

- Dependence on fee amount on the level of an appropriated rating;
- Dependence on the information of the emitter;
- Voluntarism in the information analysis;
- Offering consulting services simultaneously.

There is a question: what factors do influence **bias** of rating assessment and on how much the assigned rating is **authentic**? At first sight it can seem that reliability of a rating depends exclusively on degree of reliability of the information which is provided within the limits of the certain methodological approach to a rating definition, that is the rating agency at defining the rating should look forward to use that information which possesses the greatest reliability.

Within the frames of the majority of existing techniques of rating, it is foreseen to use the public financial reporting of a client as the initial information, and other information presented by a client, as well as the external information. Reliability of the public financial reporting of a client is provided by consecutive performance of principles of accountancy, as well as the principles and procedures of audit. As to other information presented by a client and the external information, the assessment and security of its reliability is carried out by a rating agency independently.

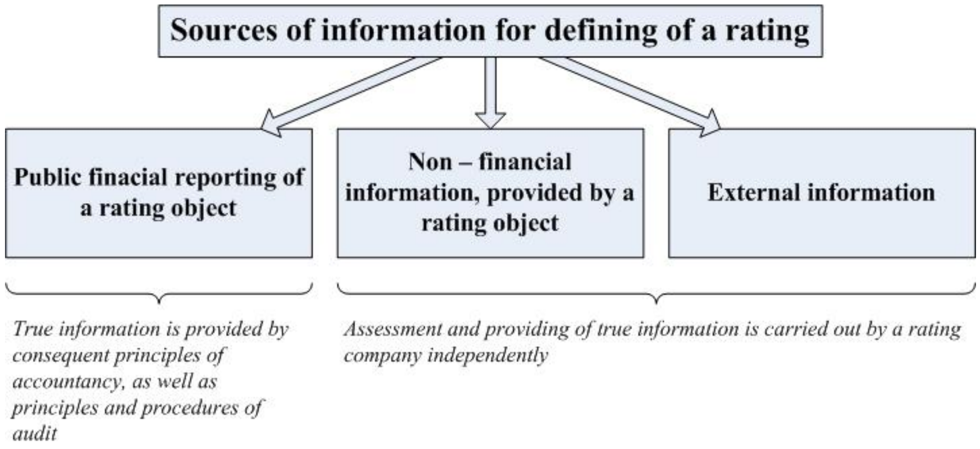


Figure 3. Providing of the trustworthy information used for definition of a credit rating

Source: Галасюк, *www.aup.ru*

However, it is necessary to pay attention that reliability of a rating isn't defined exclusively by reliability of the initial information. There can be a situation when the rating defined on the basis of trustworthy information isn't authentic (Figure 4.).

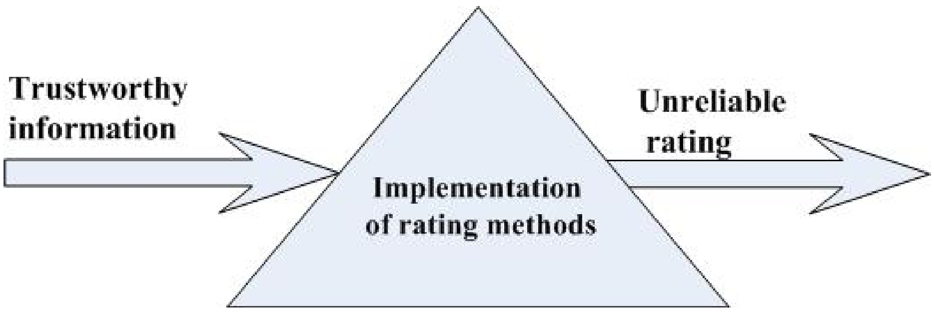


Figure 4. Unauthenticity of the credit rating received on the basis of the initial true information

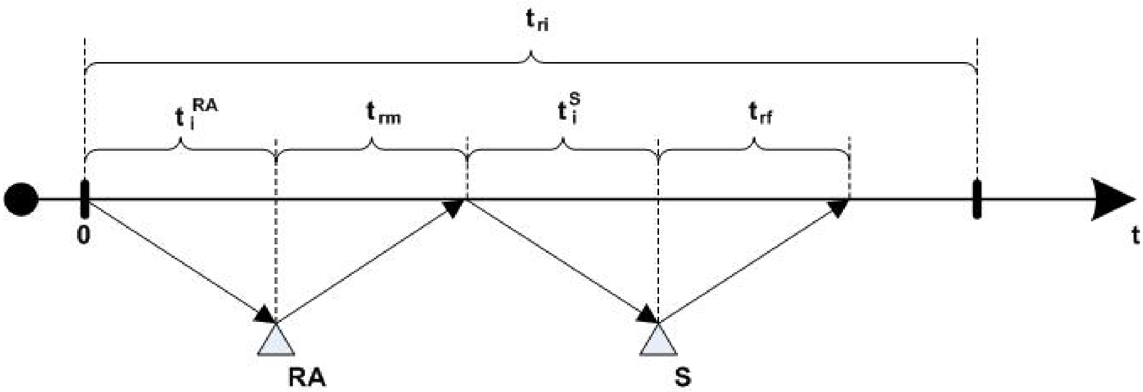
Source: Галасюк, *www.aup.ru*

Such situation can be a consequence of:

- Application of inadequate methodological techniques for rating definition therefore the information containing in a rating, doesn't correspond to a real course of events and processes which it reflects;
- Errors in the course of implementation of rating techniques.

Events and processes often change essentially, especially in economy, however the ratings assigned by rating agencies, frequently don't change for months, and even for years. Thus, the conclusion is that the information containing in rating agencies ratings, isn't true owing to the existence of a time lag. As the events and processes change during each moment of time the information containing in rating, never will be absolutely true if only it isn't defined in a mode of real time. Hence, it is possible to speak only about reliability of a rating at a certain time or about relative reliability of a rating.

Another actual problem is **timeliness** of a rating. Difference of the timely information from the untimely consists of the following: the timely information allows its users – the subjects to, make decisions, in due time to react to a situation change, but untimely doesn't. Accordingly, the degree of timeliness of the information is higher, the shorter is the time interval between the event and the moment of time in which it becomes known about to the user of the information (Галасюк, 2002). With increase in a time lag of providing the information to the user there comes such a moment of time when the information doesn't reflect a real situation any more. The reaction of users of this information on the change of a situation isn't timely any more as it doesn't answer the terms and requirements of a current situation. The information during this moment of time turns from timely to the untimely.



where

RA – rating agency;

S – the user of a rating;

t_{ri} – interval of a relative invariance of a rating;

t_i^{RA} – interval of providing of the information to a rating agency;

t_{rm} – an interval of implementation of rating techniques (assessment) by a rating agency of the subject;

t_i^S – interval of receiving of the information on a rating by a user of a rating;

t_{rf} – interval of making and implementation of the economic decision by the user of a rating.

Figure 5. The scheme of movement of information streams in time

Source: Галасюк, *www.aup.ru*

According to Figure 5 condition of timeliness of a rating in the mathematical form can be presented as follows:

$$t_i^{RA} + t_m + t_i^S + t_{rf} \le t_{ri} \qquad (1)$$

It is also necessary to point out that in modern economic conditions providing of timeliness of a rating becomes more and more a challenge. Tendencies of development of economy testify that speeds of course of economic processes increase essentially. First of all, it concerns the markets of liquid assets, especially the financial markets. As a result duration of "an interval of a relative invariance of a rating" (t_{ri}) is essentially reduced.

The majority of rating agencies don't inform the so-called "an interval of a relative invariance of a rating". It leads to the fact that the users of ratings have no possibility to estimate, whether the appropriated rating is timely at the moment of making of the economic decision or not. To achieve the greatest possible level of timeliness of ratings in the conditions of acceleration of the course of economic processes the international rating agencies, according to authors, should:

- To provide the maximum timeliness of the information for creating of ratings;
- To minimize duration of procedure of assignment of a rating;
- To accelerate procedures of forwarding of the information on ratings to its users;
- To reconsider the appropriated ratings with the interval of time which doesn't exceed "an interval of a relative invariance of a rating".

The chronic problem of rating agencies is that they are constantly criticised for their charged **payment** for the rendered services. Many authors (Partnoy, 1999) specify the possible clash of interests: the rating agency can underestimate "a rating without demand", for the purpose of constraint to receive fee for "a rating on demand". However it is necessary to point out that in research papers investigating distinction in ratings on demand and without demand, there is no acknowledgement of the above mentioned criticism. In research paper of *Poon W.P.H.* (2003) we deal with the analysis of *Standard&Poor's* ratings of 265 companies from 15 countries in the period of 1998-2000. The author concludes that alongside with other equal conditions ratings without demand are lower than ratings on demand. This fact can be explained by the effect of self-selection: only the companies which are confident of their financial position order a rating. In its turn, rating agencies explain this effect by the conservative approach to exhibiting "a rating without demand", based on the incomplete information on the rating subject.

Because of the interests clash users of ratings lose: they are banks, investors and regulators, but not the participants of the process of rating themselves. According to the authors of the article, the best solution of this problem which will lower the stream of criticism and will eliminate the clash of interests, is that the assignment of ratings should be carried out **free** of charge. The international organisation of commissions on securities calls these ratings *"unsolicited ratings"*, these are the ratings, which agencies appropriate without a formal order from the emitter or the borrower. In these cases the payment for assignment of a rating isn't planned and meetings or information exchange between agency and the client aren't foreseen(IOSC, 2003). Suggesting the above mentioned solution to a problem, the authors realise that

- decrease in income of rating agencies is possible. However, agencies can earn on credit analytics and on granting the consulting services;
- refusal in granting of the documentation of internal character is possible. In this case there is a question of objectivity and quality of the appropriated rating. The

> international agencies insist on the access to the internal information which provides a higher quality of the analysis. However the research of some central banks proves the opposite. In October, 2008 the Research Institute of the Central Bank of Finland (Peresetsky, Karminsky, 2008) published the results of the analysis according to which the models of ratings based only on the generally accessible information, have as good forecasting ability, as the models which rely on the internal information. In the National Bank of Belgium (Roy, 2006) they have come to a conclusion that gratuitous ratings at the basis of public information don't compete with the official ratings and are even more careful. Granting the ratings without the order will allow to expand a number of subjects having a rating, to avoid rating "purchase", as well as to encourage the flow of new participants of the rating market, thus to improve the quality of the offered services.

It is necessary to point out that the suggested solution of a problem is very radical and its introduction is connected with various difficulties .The first step to the introduction of the above mentioned suggestion can be introducing **of adjustable pricing** on services of ratings. The state can establish the fixed tariffs for ratings, disregarding the size of the business of the client and importance of a rating. It will allow to minimise stimulus for agencies, and customers to falsify ratings deliberately or influence the process of their assignment.

There are well-known examples when rating agencies couldn't foresee the events in due time (a problem of used **methodology**),which had serious economic consequences: the largest financial crisis in Asia, Russia and in a number of other developing countries (1997-1998), bankruptcies of companies *Enron*, *WorldCom*, defaults of bad quality mortgage securities (2007-2008). The explanation of the above mentioned failures is in the use of so called *"through-the-cycle"* methodology, according to it the assigned ratings should take into account and react to the data of creditability changes, permanent only for the time being, which may occur in connection with outside interference and don't change for a short period of time due to creditability fluctuations. This kind of approach is an attempt to trade off between the rating security and timeliness. Timeliness is a must for the rating as an analytical and informative product. The authors of the article take an opinion that security means that there are no fluctuations in the assessments of ratings in a short period of time. Thus the methodology, *"through-the-cycle"* means certain inertia of ratings towards new information. On the other hand, it also meets the demands of investors. Too frequent changes of a rating would make investors to reconsider investment portfolios, thus increasing the costs as well as creating a feeling of uncertainty of participants of the market. Rating agencies want their clients to trust in them, they want to have a good reputation, therefore they try to present their rating process in details. They publish and describe their methods of working out and organising ratings where they specify the factors and the scales the agency takes in consideration in exhibiting the rating, as well as the experts of an agency make an assessment of every factor. However, in spite of the technique of *"openness"*, you can't repeat the methods, what is clear enough: if it were possible to reproduce them, the competitors could easily do it. Taking into account the above mentioned as well as the influence of ratings on behaviour of investors, the international rating agencies <u>must take responsibility for the accuracy and efficiency of ratings</u>.

The activity of rating agencies **demands adequate, reasonable management**. The Chief Economist of IMF *O. Blanshar* (2008) also mentioned the problems of ratings in his report

"Forthcoming problems" to the states and the governments of the summit G20 which took place in Washington on 15th November, 2008. In his opinion, "the structures of supervision of rating agencies and risk management should be reconsidered for strengthening of market discipline". Following the results of the summit of "The Group of Twenty" on the financial markets and the world economy the declaration was adopted. One of the regulations of the declaration dealt with taking more strict control of rating agencies. The following can be referred to the minimal standards:

- Requirements to the quality and sustainability of ratings (i.e. rating assessments should be objective and fair, and process of rating clear, transparent);
- Independence and exclusiveness of rating assessments (prohibition of combination of different kinds of activity);
- Responsibility of agencies for the exposed ratings (it is necessary to subject agencies to official sanctions in case of detection obvious errors in assignment of ratings).

The sounded criticism of rating agencies stimulated to work out of new concepts and legal acts regulating their activity.

On 21st July, 2010 the US President Barack Obama signed the **Dodd-Frank Act** (*http://www.sec.gov*). The Act is meant not to admit new financial crisis and to provide creation of the strong base to the economic growth. The Act will allow to bridle Wall Street, to avoid a new crash of 'To Big To Fail' corporation, and also to protect the clients of financial services. The document contains more than 2000 pages, therefore we will touch upon only separate part of the Act − regulations of activity of rating agencies. The basic changes in activity of rating agencies are the following:

- Creation of new department in SEC (US Securities and Exchange Commission). Creation of new department of rating agencies in SEC will have a power to fine agencies. There will be the controllers possessing necessary knowledge and experience. At least once a year SEC will inspect agencies and make its conclusion to the public;
- The requirement to agencies to open estimation methodology, sources of reception of the information about the companies which have rating, the list of the carried out assessment;
- Use of the information from independent sources. The requirement to agencies to consider the information which arrives not only from the companies which have a rating, but also from the other sources which are reliable;
- Cancellation of the 436 (g) in the Securities Act which assumes that the credit ratings provided by agencies, don't fall under action of articles 7 and 11. That is according to the rule 436 (g) agencies don't bear responsibility for their assessment. As a result of cancellation 436 (g), emitters of securities who want to include a credit rating in the project of emission or the public conclusion, should receive the consent of a rating agency. If the agency gives out such a consent it will be obliged to bear responsibility (according to the article 11 on Securities Act) for distortion of the information or certain omissions in each rating included in the prospectus/conclusion. Probably that now the agency consent will cost more expensive;

- The right to forbid activity gives SEC power to stop agency activity for providing of an inappropriate rating to a real situation;
- Education. The requirement to rating analysts is to have higher education and to take qualification examinations.

The new European legislation concerning rating agencies was developed in 2009-2010 and in 2011 on January, 1st came into force. It obliges credit rating agencies to be the registered participants of the market, and also to open a question of the potential conflict of interests in its own methodology. For supervision of the financial markets the megaregulator was created, it is ESMA – (European Securities and Markets Authority). ESMA can apply sanctions, temporarily withdraw the right of a rating agency on release of credit ratings or even to cancel registration if considers that it breaks any legislative requirements (for example, putting itself in a situation of the conflict of interests).

Introduction of responsibility for exposed ratings encourages strengthening financial position of rating agencies. According to the authors, it is **necessary to establish standard requirements to the size of their own capital**. On the one hand, it will allow to lower sensitivity of agencies to risks, and on the other hand − will make their proprietors and managers have a more serious attitude to ratings. The minimum capital owned by agencies represents the analog of requirements to owned capital of auditor firms which exist in many countries.

Conclusions and Suggestions

The crisis of 2008-2009 has its impact on the market of rating services, it revealed a number of drawbacks and discrepancies in activity of rating agencies. For improvement of the activity of rating agencies and increase of trust in them, the authors of the article have made the following suggestions:

- Assignment of ratings should be carried out **free** of charge, which will lower a stream of criticism and will eliminate the clash of interests. The first step of implementation of this suggestion could be the introduction **of adjustable fees** on services of rating agencies;
- The international rating agencies should take responsibility for accuracy and efficiency of the appropriated rating, continuously improving their methodology;
- Introduction **of adequate, reasonable regulation to activity** of rating agencies;
- It is also essential to establish **standard requirements to the size of their own capital**.

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