An Analysis of Market Participants' Perceptions on the EU Credit Rating Agency Regulations

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Abstract

The 2007-09 global economic crisis had a multiplicity of inter-related causal factors but one factor often highlighted concerns the role of credit rating agencies (CRAs) in the crisis. Following the crisis, the European Commission, (EC) implemented new regulations designed to control the worst excesses of the CRAs as well as reduce the chances of such events re-occurring in future. This paper focuses on the implementation of the EC regulations on CRAs with the aim of understanding how participants working in the UK financial markets perceived the EC Credit Rating Agency regulations and their impact on market practices. The empirical research undertaken for this paper leads to a conclusion that the EC CRA regulations were seen to fall short of what was required for effective regulation and are unlikely to inhibit the role of CRAs in future or prevent such crises. This situation poses major challenges to public policy which must be addressed by

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Introduction

Credit Ratings Agencies (CRAs) provide an assessment of an issuer"s credit worthiness, helping to alleviate information asymmetry in the market. Despite the increasing use of credit ratings by both regulators and corporate in global securities, CRAs have traditionally been unregulated. Alleged CRA contributions to various previous corporate collapses sparked calls for CRAs to be better regulated (Amtenbrink & De Haan, 2009). The 2001 collapse of Enron and the role of rating agencies therein attracted scrutiny and fuelled calls for regulation of CRAs.

Regulatory use of ratings through such requirements as Basel II entrenched CRAs as quasi-regulatory agents, giving them power over both corporations and sovereign states. The increasing power of CRAs raised concerns over their alleged opaque methodologies and their conflicted issuer-pays model. Furthermore, the lack of competition in the ratings market sparked calls for tighter regulation of CRAs. Notwithstanding the above concerns, regulators were seemingly reluctant to interfere in the credit rating market until the 2007-9 global financial crisis. This led to calls for more regulation of CRAs on the basis of views that the global financial crisis was partly attributable to failures in the agencies themselves (Howard & Green, 2008). Credit rating agencies played a central role in rating the collaterised products, giving them legitimacy in the market, raising questions on whether CRAs were complicit or incompetent in the crisis, failing to detect the weak structures behind some of the collaterised debt obligations (Hunt, 2009). Following the alleged CRA involvement in the 2007-9 crisis, attempts were made to regulate CRAs with the aim of mitigating any harmful impacts they might have in the future. A particular regulatory initiative was that of the European Commission, which the focus of this paper is.

This paper seeks to evaluate the EC regulatory initiative through the lens of market participants in the United Kingdom (UK).

The research addresses two pertinent questions:

1. How were the EC regulations perceived by UK-based market participants within the CRA industry?
2. How do market participants assess the impact of the EC regulations on the operation of UK capital markets?

The study aims to offer insights into UK-based market participants‟ reactions to the EC regulations post the 2007-09 crisis as well as evaluate participants‟ perceptions of the impacts of the regulations (both intended and unintended). The study therefore brings together economic regulation, behavioural and sociological perspectives to better understand the dynamics of the regulation of CRAs in the EU as perceived by UK-based market participants. Market participants‟ views are gathered through 30 Semi-structured interviews with debt issuers, institutional investors and other interested parties. This study employs metaphor analysis to examine participants‟ views and illustrate interviewees‟ thought processes.

This research contributes to the literature in two ways: first, it enhances the understanding of the relationships between regulatory initiatives at policy level and the practical understanding by and engagement of market participants on the ground. Second, the use of metaphor analysis gives visual images of how respondents evaluate a piece of abstract legislation by drawing on parallels from other more familiar areas.

This paper is structured as follows:

- A discussion of the background themes relevant to this research including the attempts to regulate credit ratings agencies in the EU;
- An appraisal of the research approaches and methods used in this study;
- An outline of the findings of the research;
- A discussion of the study‟s conclusions and regulatory policy implications together with a consideration of possible further research.

Background

This section outlines the main background themes of relevance to this research incorporating:

- The nature of Credit Ratings Agencies (CRAs),
- The economic and financial context of the 2007-09 financial crisis,
- The alleged role of CRAs in the financial crisis,
- The regulatory environment, and EC regulatory initiatives, regarding CRAs.

The nature of Credit Ratings Agencies (CRAs)

CRAs are independent agencies providing credit worthiness opinions on identified borrower entities (Katz, Salinas, & Stephanou, 2009). They bridge information gaps between issuers on one hand and investors on the other (Fennell & Medvedev, 2012), giving judgements *(ratings)* on the likelihood of default for rated debt instruments or securities issued by corporations or sovereign governments. The resultant credit ratings act as indicators of risk, denoting the rated entities‟ probability of default. Ratings crucially guide investment decisions in the global securities market. CRAs act as "the first line of defence for investors" (Davies & Green, 2008, p.68), offering timely information on rating movements. Despite the strong position of CRAs in capital markets, the following sections detail some of the concerns raised regarding the CRA industry:

Reliance placed on opinions

Despite the heavy reliance on credit ratings by regulatory bodies, securities issuers and investors, CRAs argue that their ratings are mere opinions not to be used as the basis of investment decisions without further due diligence (Nagy, 2009). This raises questions on regulators appreciation of ratings and their underling implications. CRAs themselves have traditionally operated in unregulated environments with no clear accountability for their ratings.

Unregulated oligopolistic CRA market

The market for the provision of credit ratings is oligopolistic, dominated by the big three agencies (Fitch, Moodys and S&P) with a combined market share of over 95% (Alessi & Wolverson, 2012). This acted as a barrier to new competition, limiting choice and potentially impacting ratings quality.

Despite the increased important role of CRAs in the global securities market, there was no comprehensive regulatory oversight on their operations, particularly in the EU. Ratings quality allegedly remained hazy, without any specific metrics on performance (Rousseau, 2009).

Remuneration of CRAs and performance

The shift from the investor-pays CRA business model to the current issuer-pays model raised concerns about conflicts of interest and lack of accountability, prompting calls for tighter regulatory oversight of CRAs (White, 2010). The issuer-pays model gives CRAs undue advantage over the issuers that they rate. A study by Mathis, McAndrews & Rochet, (2009) found that CRA ratings were directly correlated to revenues and market prospects, suggesting possible ratings bias. This finding, although localised to two leading CRAs was further affirmation that ratings seemed amenable to conflicts of interests, suggesting a negative correlation between competition and ratings quality. If the EC regulations usher in more competition, the increased number of CRAs could trigger ratings inflation with CRAs rating more positively, eroding ratings quality (Xia & Strobl, 2012).

Conflicts of interest

Conflicts of interest exist at multiple levels in the rating industry with the most obvious and commonly-cited conflicts manifested in the issuer-pays revenue model(Egan, 2009). The agency view posits that because issuers pay CRAs, they could influence the CRAs to issue inflated ratings in a bid for issuers to attract favorable borrowing terms (Darcy, 2009). On the contrary, the reputational capital view argues that CRAs‟ long term reputations of accurate ratings mitigate against short-term incentives (Covitz & Harrison, 2003)and therefore to suggest that such reputations could be sacrificed to serve issuers‟ short-term desires would be naive (Goodhart, 2009). Further, the choice of which CRA to use was said to be driven largely by regulatory pressures and investment mandates (Partnoy, 1999). Consequently, Fennell & Medvedev (2012) argued that the management of such conflicts was hinged on competition and reputation.

Lack of transparency

The CRA rating methodologies lack transparency as to how rating decisions are derived, making it difficult for different stakeholders to judge ratings quality (Calomiris, 2009; Mollers, 2009; Sy, 2009).

Herding tendencies

CRAs allegedly displayed “herding” tendencies in making assessments (Güttler & Wahrenburg, 2007), suggesting that CRA analysts followed market wisdom rather than being independent. Consequently, analysts seemingly made recommendations consistent with those of their industry peers. Graham (2009) suggested that this could be because analysts received the same information, leading to perceived herding. Clement and Tse (2005, p.309) warned that analysts "seek safety in forecasts that are close to the consensus" implying that boldness could jeopardize analysts' career chances, a dangerously ironic situation. Analysts may also investigate companies the same way, a kind of "investigative" herding rather than behavioural.

The regulatory environment and EC regulatory initiatives regarding CRAs

Following the 2007-9 financial crisis, the EC took the steps to regulate CRAs in recognition of their crucial role in global securities and banking markets against alleged weaknesses in their operations. The EC initiative aimed at fostering among rating agencies, accountability and transparency through enhanced disclosure; protecting investors; enhancing competition among CRAs as well as addressing conflicts of interest within the CRAs‟ business model. As a primary requirement of the EC regulations, CRAs wishing to issue ratings in the EU had to register with the European Securities and Markets Authority, (ESMA). The registration requirement was a proactive step to prevent the pass porting into the EU of ratings generated in third countries outside the EU (Masera, 2010). Following successful registration, CRAs would be subject to ESMA‟s on-going surveillance monitoring, particularly focusing on rating methodologies. The EC regulations were also aimed at eliminating conflicts of interests by engendering organizational and operational independence as one of the criticisms against CRAs was that their rating methodologies were unclear, making it difficult for market participants to judge ratings quality (Partnoy, 2006). The new CRA regulations required transparent CRA methodologies together with enhanced disclosures and performance data which was to be sent periodically to the regulator, ESMA which ultimately replaced existing regulators. The regulations came into force on 7 December 2010 requiring that ratings used for regulatory purposes in the EU had to come from registered CRAs.

However, following the downgrading of Greece, Portugal, Spain and Ireland by the top three CRAs in 2010, the European Parliament and the European Council tasked the European Commission to look into further coordinated regulatory oversight on CRAs. This led to the revised CRA regulations, (CRA2) on 2 June 2010, under the auspices of a single European regulator, ESMA with powers to: initiate investigations; carry out requisite inspections and impose penalties to any errant CRAs. There were criticisms that, despite the revisions, CRA regulations neither addressed issues raised in earlier studies around conflicts of interest in CRA models or the opaque CRA methodologies (Calomiris, 2009; Mollers, 2009; Sy, 2009). The regulations were further revised with strict requirements for additional disclosures; measures to address conflicts of interest; mandatory requirements for analyst rotations; introduction of civil liability among CRAs; competition and market concentration levels among other requirements. While the revisions may denote a changing regulatory climate, it could be surmised that they were not well-though through, hence the rapid revisions.

Since their inception in 2009 concerns have been raised that the regulations were not finely-tuned enough to address the problems that had led to the crisis in the first place (Staikouras, 2012); that they were not adequate to address the legacy problems in the industry (Papaikonomou, 2010; Utzig, 2010) and that they had unintended consequences on the market (Avgouleas, 2010). This study therefore sought to gauge market participants‟ perceptions of the EC regulations to investigate the above concerns. The next section outlines the study‟s research approach and methodologies adopted.

Research Approach, Methods and Underlying research philosophy

This study takes a qualitative, naturalistic approach (Hammersley, 1999), investigating UK-based market participants‟ perceptions of the impact of the ECCRA regulations on the UK securities market. Previous studies investigating credit rating agencies and credit ratings have largely adopted an economic perspective, analysing the efficacy of ratings and agency relationships in ratings industry. Considering the fact that ratings are not solely numerical hard data, but comprise subjective analyst judgments as well (Lehmann, 2003), behavioural views of credit rating issues also deserve exploration.

Data Collection

The study utilised semi-structured interviews allowing for insightful exploration of participants‟ responses, uncovering their perceptions of the impact of the EC regulations (Kvale, 1983). A total of30 participants were drawn from four groups who work closely with credit ratings as follows:

- **Issuers:** 10 issuer representatives comprising senior treasury officials drawn from various British-based issuing organisations.
- **Institutional investors**: 9 participants drawn from financial services, manufacturing, local government, pension funds and pharmaceutical industries.
- **Other Interested Parties (OIPs):** 5 senior professionals either working largely in, or who had previously worked closely with or around credit ratings, including any individuals who used credit ratings in making decisions (Duff & Einig, 2009).
- **Credit Rating Agencies, (CRAs)**–6 participants were drawn from various CRAs with some involvement in the UK securities market.

An initial purposively-generated sample of 35 contacts was provided courtesy of the Association of Corporate Treasurers, (ACT) Working Group on Credit Rating Agencies. The group comprised members who had consented to participate in studies related to credit ratings. Further contacts were generated using “snow-balling”. The nature of the study required a flexible and open data collection technique allowing participants to focus on issues deemed to be key in the study area (Stebbins, 2001). The interviews sought participants‟ views on their understanding of the EC regulations, perceived impact as well as how well the regulations were perceived to have effectively performed against the set objectives.

Data Analysis – the use of metaphors

Data analysis followed the usual stages of data preparation, transcription, sorting and coding. However, during the initial reading of the data and identification of themes, a strong prevalence of metaphors used by participants was noted. The rest of the data scripts were subsequently scanned to see if there was a consistent use of metaphors. Upon establishment of the prevalence of metaphors, a decision was taken to adopt metaphor analysis as the method for analysing data.

The use of metaphors offered vivid conceptualizations of participants‟ perceptions embedded in their language and use of imagery, making the otherwise abstract subject of regulation more accessible (see also Tourish & Hargie, 2012).

Overview of metaphors and metaphor analysis

A metaphor can be defined as "a mapping of entities, structures and relations from one domain (called the „source‟) onto a different domain (referred to as the „target‟)" (Cornelissen & Kafouros, 2008, p.2). Metaphors allow for the explanation of obscure, abstract or unfamiliar phenomena using the analogy of other more familiar but different phenomena through imaging or picturing (Morgan, 1980). Morgan (1980; 1983) highlighted the importance of metaphors in explaining complex and abstract organisational phenomena which would ordinarily be difficult to understand. Use of metaphors in this instance induces new insights and vivid inferences that may not have been imagined or envisaged before.

In analysing metaphors, Cassell & Lee (2012) identified two approaches

- the deductive approach generates metaphors from outside the studied phenomena and imposes them on the studied organisational phenomena as a way of making sense thereof (see for example Marshak, 1993).
- the inductive approach "involves identifying metaphors in the context of people‟s language-use and examining their uses, meanings and impacts" (Cornelissen, et al, 2008, p.10).

This study used the second approach, identifying metaphors directly from the language used participants. The identified metaphors were therefore participants‟ own conceptualisations of the studied phenomena and represented participants‟ own original visualisations of reality in relation to the credit rating agency regulations. They visualised how reality was internalised and communicated by the study participants. The identification of metaphors in this study involved initially reading through participants‟ transcripts to identify words or phrases used outside of their usual contexts to depict aspects of credit ratings or participants‟ attitudes or reactions to the EC regulations. The aim was to see how participants interpreted and or made sense of the perceived effectiveness of the EC regulations and their impact either on their own organisations or on the UK securities industry and EU economy at large.

The conceptions sought herein were therefore interpretive in nature and were consistent with the interpretivist philosophical orientation of this study. Overall, 77 metaphors were identified and grouped into 8 metaphor themes summarised below.

1. **Positioning / structuring** metaphors suggesting the possible manoeuvring for influence, power and hierarchical positions in the ratings market;
2. **Voice metaphors** representing diverse and often conflicting opinions and perspectives of ratings, rating agencies, their roles and regulation thereof;
3. **Power and influence** metaphors representing contested spaces between the regulators and the regulated entities as well as power and competitive dynamics among market participants;
4. **Movement metaphors** depicting the dynamism, fluidity, uncertainty and self-structuring in the regulation of rating agencies;
5. **Dependence metaphors** denoting linkages and inter-dependencies in the securities market resulting in difficulties to selectively deal with certain elements while leaving others;
6. **Perimeter / Boundaries / Fences** metaphors depicting containment on one hand or fencing off undesirable phenomena using relevant barriers on the other. This category also possibly suggested contested regulatory boundaries;
7. **Celebration and crisis** metaphors depicting the blind and possibly careless exuberance that characterised the pre-crisis era, followed by the harsh crisis and its impact. The celebratory period equates to the exuberant years and their associated runaway practices, while the crisis equates to the economic meltdown that saw the collapse of a number of major corporations;
8. **Masks and appearance** metaphors that suggested that a lot of the perceived activity and changes in the credit rating market possibly masked deeper and different realities that were far from the images portrayed externally.

1.

2.Figure 1: Typology of metaphors identified in this research

3.

The classification of metaphors in the above format helped to create a typology of participants‟ contextual conceptions of issues in the regulation of credit rating agencies. In this case, when examined closely, participant‟s language conveyed deeper subconscious reactions to the research subject.

Research Findings

As shown in Figure 1, metaphors identified from interview transcripts were sorted into eight categories which are discussed in detail below.

Movement metaphors depicted physical, temporal, figurative and virtual movement, symbolizing the "*fluid and flux*" state of the securities regulatory environment. This denoted the regulatory environment‟s lack of stability with a shifting regulatory agenda. This was said to cause anxiety among market participants, eroding confidence with different regulatory provisions changing so fast and not given enough time to take effect.

Regulations were likened to "*a pendulum*" swinging between extremes of no regulation *(as was typical of the ratings market prior to the 2007-8 global financial crisis - Lynch, 2009)*and the extreme over-regulation(*as was alleged to be the case in the post 2007-8 crisis - Maris, 2009; Nichols et al., 2011)*. This implied that participants did not perceive a state of stability in the regulatory process, but saw "*reactive*" attempts by regulators to either heighten regulatory pressure or tone the regulations down, in response to market events.

Regulatory efforts were criticised for being reactive and modelled on past crises, raising questions on their effectiveness in preventing possible future crises. Participants asserted that the regulatory efforts neither addressed the 2007-9 crisis as this had already come and gone, nor effectively prevented future crises as most of the perceived causes of previous crises were not addressed. Regulators said to be "*closing the gate after the horses had bolted*" suggesting that regulations were late in addressing market problems and lagging market events. Some participants insinuated that the regulations were politically-motivated. This line of thought was not pursued in the study and may be worth further research.

Ratings were said to be "*tighter since the crisis*," with CRAs "*more uptight*" in their rating approach. This view was echoed by some researchers (Blume, Lim, & Mackinlay, 1998). Extant literature suggested that CRAs tended to over-compensate after crises, with ratings moving from a more optimistic to a more conservative rating regime (Baghai et al., 2011). Participants" perceptions therefore mirror extant literature in emphasising the erratic nature of ratings following major crises.

Participants felt that regulators "*weren't up to speed*" and "*reactive*", and were behind the curve in the highly dynamic and innovative securities market. Consequently, regulators were not quick enough to contain market developments. Regulatory responses were said to be "*reactive and kneejerk,*" lagging behind "*aftershocks*" of the crisis.

The suggestion was that regulators had to think and act on the cuff, resulting in regulations that were not thought to be well thought-through (Becker, 2011; Fisch, 2010). This implies that the resultant regulatory provisions may have unintended consequences for market operations. Referring to the Glass-Steagall Act in the USA, Lightfoot (2003) lamented the fact that the regulations were reactive and not well thought-through, resulting in burdensome effects. Parallels can therefore be drawn between the American Glass-Steagall experience with the EC regulations. This parallel triggers questions regarding the effectiveness of the EC regulations and the possible unintended consequences there from.

Participants opined that "*regulators had run off with the headlines,*" suggesting a populist regulatory approach, following media headlines rather than taking a long-term view of market problems. Regulations were said to be "*tick-box*" and driven by a desire to appease media agendas and not taking a considered long term view of the market, potentially damaging the market and leaving problems for future generations. This view was said to be manifested through the many regulatory iterations from CRA1 through to CRA3.

Participants argued that the terms of office of the politicians behind the regulatory agenda were limited and consequently, such politicians tried to go for high media impact reforms during their limited terms. Overall, the movement metaphors depicted an unhealthy image of the EC regulatory arena.

The masks, appearances and pretence metaphors denoted participants" perceptions of superficial activities in the ratings market which masked the reality of issues on the ground, portraying a masked reality. Regulators were likened to "*toothless bulldogs*" visualising the non-binding guidelines. The futility of some of the regulatory efforts were said to be exacerbated by a perceived misdiagnosis of the market problems rendering the resultant ineffective, engendering little trust among market participants on the ground.

The initiative to promote more competition was viewed as a "*catch-22*" situation which was "*falling flat on its face*" as the CRA market was not amenable to the general laws of competition due to prescriptive investment guidelines. This suggested that despite having more CRAs, some investors would prefer to stick with traditional CRAs, underscoring the fact that just adding more CRAs was unlikely to be effective. The metaphors in the masked realities category portrayed a lot of the benefits cited in the promulgation of the regulations as illusory. They argued that regulators were masking many unintended consequences, promoting illusions of regulatory benefits. An example cited was the view that "*regulatory compliance was gobbling up budgets*" and just a "*box ticking*" process that was not addressing the core problems in the market. The effectiveness of the regulations was said to be "*up in the air*" with the market "*back to business as usual*" and the regulatory efforts categorised as "*window-dressing*" and "*packaging*" suggesting that all this was largely superficial and designed to appease the electorates.

The perimeter fence and boundary metaphors suggested that CRAs had "*Chinese walls*" to separating their analysis from commercial activities thus mitigating conflicts of interest. Regulations were depicted as "*overboard*" suggesting that regulators were overstepping their mandate with their "*one size fits all*" approach which was indiscriminate and less likely to be effective.

The background to the above was said to be the previous "*blind use of ratings*" which saw them as a "*screen*" to complement other sources of due diligence. Regulating CRAs was therefore not perceived to be the solution if the problem was poor use of ratings.

The dependence and interlinkages metaphors denoted intertwined relationships inherent in the securities market with "*herd-like*" behaviour observed as participants tended to band together, particularly in times of ambiguity. The "*symbiotic relationships*" were perceived to corral the market to act in unison. Proposals to consider an investor-pays ratings revenue model were said to create a "*free rider*" and that the existing issuer-pays model should not be completely discarded as that would be like "*throwing away the baby with the bath water*."

Celebration and crisis metaphors depicted the pre-crisis exuberant "*party*" where "*none dared take the punch bowl away*" and the subsequent "*panic*" where people‟s "*fingers burnt*" following the crisis. Regulations were said to be "*founded on shaky ground*" with some regulation drivers said to exist "*only in the minds of politicians.*" This suggested that regulators were divorced from reality clouded by a limited understanding of how the ratings market worked. Regulators were viewed as being "*out of touch*" from the complex credit rating issues on the ground. Consequently, the regulations were "*entirely for the birds*" with governments and regulators failing to "*join up the dots*" with a "*patchy*" approach to regulation.

Efforts to stimulate competition by advocating for more CRAs to join the fray were viewed as a *"chicken-and-egg situation / catch-22 situation"* as the "*new CRA entrants had to earn their spurs*" first if they were to get customers.

The voice metaphor denoted various and often polarised perspectives on credit ratings and regulation thereof. While credit ratings were perceived to be a default signifier of a rated entity‟s viability, participants noted the "*lack of transparency*" in the ratings methodologies. The rating process was said to lack clear guidelines and likened to a "*black box*". The view of lack of transparency in credit ratings echoed conclusions reached by several studies in the area of ratings (Delamaide, 2008; Manns, 2009) in which all concurred that the rating methodologies were opaque, making it difficult for the objective judgment of ratings quality. The transparency problem was said to be further exacerbated by inexperienced rating analysts who were often "*bamboozled*" by the more experienced issuers possibly leading to CRAs overlooking certain loopholes in the issuing information presented to them.

Participants argued that ratings were "*not the gospel truth*" and "*just one part of the equation.*" On the contrary, the "*mechanistic behaviour*" of participants when using ratings denoted a rigid approach that only relied on the rating symbols and failed to apply human judgment to broader environmental issues in the market. This led to a "*production line*" fashion with a focus on volumes and routine analyst processes, treating the rating process as a mass market activity. This may have been due in part to the "*hard-coded / hard-wired*" treatment of ratings into different investment guidelines.

Relationship, power and influence metaphors evoked strong animate and inanimate depictions of CRAs and the power dynamics in the rating industry. CRAs were depicted as victims of a systemic failure who played a small part leading up to the crisis but ostensibly inheriting most of the blame. CRAs were contrastingly portrayed as "*easy prey,*" unable to defend themselves against vilification, while various scholars argued that CRAs were perpetrators not victims of the 2007-8 debacle (Ryan, 2012).

In contrast to the above, some participants portrayed CRAs as "*messengers, watchdogs, eyes and ears, guard dogs, and gatekeepers*" suggesting that they "*slept on duty*" and failed in their role as market information custodians (Lombard, 2008). This suggested that CRAs had power and influence to sanction the flow of information and prevent wrong-doing but failed this information intermediary role and contributed to the crisis (Alcubilla & Pozo, 2012; Fennell & Medvedev, 2012).

Cassese and Casini (2012) portrayed CRAs as honey birds, actively signaling to bee-hunters, the location of honey bees‟ nests. Unlike Credit Rating Agencies, honey birds only get their reward if they successfully lead the bee hunters to the honey. CRAs seem to have been rewarded despite allegedly leading rating users astray. In both instances, CRAs played an active signaling role.

The agency metaphors suggested CRAs were not entirely to blame for the messages they conveyed, hence the adage "*do not shoot the messenger*." If however, the messengers distort the conveyed messages or misinform, then they bear some responsibility for the consequences of their inaccurate messages. This seems to have been the case with CRAs leading up to the crisis.

CRAs were depicted as inanimate and mechanistic agents ("*fire alarms"*) whose function was to detect danger and sound the alarm. If the description fitted, there are questions as to whether CRAs sounded the alarm prior to the 2007-9 crisis, and if they did, whether this was timely enough for those protected to safely leave the scene soon enough. The implication here is that failure to sound the alarm on time signifies a malfunction on the intents and purposes of the fire alarm and therefore suggests that CRAs may not have worked as well as they were supposed to.

The further depiction of CRAs as "*eyes and ears*" again reinforced the detection role, laying a responsibility on CRAs to keep vigil over securities market issues, a role that CRAs allegedly failed to carry out diligently as has been discussed earlier.

The issue of power dynamics in the securities market deserves further scrutiny. Participants noted the ratings market as "*uneven"*. CRAs competed on an uneven footing characterized by "*Davids and Goliaths*" in a market fraught with power imbalances possibly based on resources, market regulation and competitive advantages in favour of incumbent CRAs and disadvantaging new CRAs from accessing traditional markets owing to their lack of credibility (Deb et al., 2011).

Overall, there was a view that the EC regulations, their format and intentions were not well-thought-through and had the potential to cause more problems for the market and result in additional costs for market players. They were therefore not perceived to be effective in combating future crises as they were modeled on past crises in a dynamic market. Analysed closely, participants‟ concerns largely emanated from the fact that the regulators seemed to be aloof, lacking in-depth understanding of the regulated market. The suggestion was that regulators ought to have used practitioners who understood this complex industry better.

Conclusions, implications and further research

The securities industry has for a long time operated without regulation, triggering incessant calls for regulation, particularly the regulation of CRAs. Despite the gazetting of the 2009 EC regulations, various scholars raised concerns that the regulations were not finely-tuned enough to address the problems that had led to the crisis in the first place (Staikouras, 2012); that they were not an adequate (Nichols et al., 2011; Papaikonomou, 2010; Utzig, 2010) and that they posed unintended consequences (Avgouleas, 2010)as they were not well-thought through (Fisch, 2010). Using a selection of metaphors drawn from participants in this study, results indicated a pervasive concern by UK-based study participants, echoing evidence from extant literature. The study findings point to the need for closer consultations between regulators and regulated entities for better buy-in from market participants on whom the regulations hinge for success.

While the EC CRA regulations were aimed at curbing the erstwhile ways of CRAs, and prevent further crises following the 2007-9 global financial crisis, the study participants in this study suggested that the regulations were reactive and not likely to prevent future crises as they were modeled on previous crises and not forward-looking enough. The conclusions drawn from data in this study corroborates previous arguments that regulations tend to lag behind market events (Helleiner & Pagliari, 2009).This suggested the futility of the regulations, raising questions about the effectiveness of the EC credit rating agency regulations. The findings make a significant contribution to the literature on the regulation of credit rating agencies. First, the study of market participants‟ perceptions provides an important insight into the perceived effectiveness of the new regulation. Further, the use of metaphors to investigate participants‟ views towards regulation is a significant contribution that helps conjure solutions to CRA regulation issues in metaphoric terms. The findings have significant implications for both policy and practice, suggesting closer liaisons between regulators and practitioners to close the perceptions gap and ensure that the regulations are more finely-tuned to reduce unintended consequences.

Study Limitations and further research

This study had three main limitations which offer scope for future research. Firstly, while the study provided an empirical account of UK-based market participants‟ perceptions of the effectiveness of the EC regulations and their impact on the UK securities market at a point in time. The fluid nature of the CRA regulations may see the rating landscape changing quickly, suggesting that further studies are needed to see whether participants‟ views would have changed significantly.

The second study limitation emanated from the purposive sampling approach and the subsequent snowball sampling which potentially limited participants to a small circle so that we cannot generalise our findings. Notwithstanding this, the ratings market is relatively small and there is no indication that widening the sampling frame would have yielded significantly different results.

Further, as the study came not long after the financial crisis where CRAs had been vilified for their alleged contribution to the crisis, views expressed may have been influenced by the heightened attention to both CRAs and the regulation thereof. Future studies could investigate views of broader groups or use larger samples to test the results of this study.

Lastly, the focus on UK-based market participants" views, while dealing with pan-European Union regulations made it difficult to isolate the UK from the broader EU market and delineate regulatory effects. Consequently, some concerns expressed may apply to both the UK as well as the broader EU market. While the UK-centric approach to the study allowed for a contained, manageable sample, further research could be conducted on other EU countries to determine if participants share the same views expressed by UK-based participants in this study or whether market differences may yield different outcomes.

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