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Reviewing the rating agencies

BERATED, the international ratings agencies act like young rascals and spoilt brats usually do: they smirk and they disobey you. But such a reaction was not unexpected. Even before the Asia Pacific Economic Cooperation (Apec) forum resolved in Kuala Lumpur this week to undertake a "review" of how these ratings agencies had been behaving towards crisis-hit economies, the people running the agencies were very adamant that they had done no wrong even when confronted by the "victims" of their activities. They may have admitted to some serious errors of judgement in recent months, but they were certainly in no mood to do more than that.

But seriously, as a small but important component of the world financial system, the international ratings agencies are not an island and can never hope to be. With the world moving towards the reform of the so-called international financial architecture, the likes of Moody's, Standard and Poor's, and Fitch IBCA must realise that their roles and responsibilities will also come under close scrutiny. The people running the international ratings agencies have no reason to fear reforms if they are to remain relevant in the new architecture. No matter how much they despise the backlash from Prime Minister Datuk Seri Dr Mahathir Mohamad after they had downgraded Malaysia in September - which was what led to the Apec leaders calling for a review of the agencies' activities - surely these agencies must have faith in the likes of US vice-president Al Gore and Canadian Prime Minister Jean Chretien, who were also part of the Kuala Lumpur Declaration? They are no rascals and they are no spoilt brats; the agencies are just a part of a system that has thousands of small and big parts, a system that is clearly flawed and in need of change.

The ratings agency people, in defending their positions against the review call by Apec, say it is not their job to create economic development. Velvet Ysohinami, who is based in Tokyo and working for Moody's, fully believes that "whether or not (the ratings) are well received by any one entity, (they) contribute to the strength and efficiency and long-term global economic growth for all capital market participants". Standard & Poor's responds with a statement on its very long and documented history of sharing its criteria and methodologies with all participants in the global capital markets. "We would be happy to share these with Apec and any other interested parties". Fitch IBCA's Asia director of corporate ratings John Banwell is passionate in defending the agencies, saying that they are already regulated by "the need to be credible to investors". His warning against "political or governmental interference" in the agencies' work was obviously targetted at the call made by the Apec leaders on Wednesday.

Certainly, the world, the Apec leaders and Malaysia want ratings agencies to remain credible. But they must be fair and their ratings cannot give rise to any type of suspicion. What has happened in the last 18 months since the start of the Asian crisis is that these agencies were acting without care for the implications of their actions. Fine, they are not around to create economic developments but why does Moody's Yoshinami have a habit of kicking someone who is already down? When the agencies slashed Malaysia's sovereign ratings on the eve of a planned road tour to raise funds in the US, surely they were aware that they had just made it almost impossible for the Malaysian Government to obtain those much-needed funds? If ratings agencies do not care for helping create economic

development, the least they could do is not destroy what countries have painstakingly tried to develop for decades. It must be stressed, too, that long before Malaysia, Japan had called for a review of the behaviour of the ratings agencies.

The objective of the review called by Apec is not to hurt credibility; on the contrary, the exercise should add to the absence of such virtue in the rating agencies' operations. These people cannot continue to be ignorant of their own power and influence, for at stake is the livelihood of millions of people just trying to make it through the day through honest means.

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