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

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Abstract

The 2007-9 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 governments at national and supra-national levels.

Keywords: regulation, credit rating agencies, economic recession, European Commission, effectiveness

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 corporates 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 fueled 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 2007-9 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 were 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 rating 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 2007-9 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; Ndlovu, 2016), 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 underlining 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 favourable 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 passporting 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-thought 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 EC CRA 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

This study employed use of semi-structured interviews allowing for insightful exploration of participants' responses, uncovering their perceptions of the impact of the EC regulations (Kvale, 1983). At the conclusion of the study, a total of 30 participants had been interviewed, drawn from four groups closely associated with credit ratings. The four groups comprised:

- **Issuers:** A total of 10 senior treasury officials were drawn from various British-based issuing organisations.
- **Institutional investors**: 9 financial services interviewees were drawn from manufacturing, local government, pension funds and pharmaceutical industries.
- **Other Interested Parties (OIPs):** This group comprised 5 senior professionals currently working with or with previous associations with credit ratings, including any individuals who used credit ratings in making decisions (Duff & Einig, 2009; Ndlovu, 2016).
- **Credit Rating Agencies, (CRAs)**–This group was made up of 6 interviewees drawn from various CRAs with some involvement in the UK securities market.

Courtesy of the Association of Corporate Treasurers, (ACT) Working Group on Credit Rating Agencies, 35 contacts were purposively drawn from the ACT member database. The purposive sample was made up of members who had indicated their willingness to participate in research studies on credit ratings. Using the initial 35 contacts, snow-balling was used to generate further potential interviewees. Considering the complex and seemingly closed nature of the study, a flexible and open data collection approach was required to give participants leeway to direct their focus on issues deemed pertinent to credit ratings (Stebbins, 2001). The interviews swere aimed at gauging participants' perceptions of the EC regulations, their views on the perceived impact of the regulations, as well as how well they thought the regulations would fare against the regulatory objectives.

Data Analysis – the emergence of metaphors

Consistent with other qualitative studies, data analysis took a phased approach covering data preparation, transcription, sorting as well as coding. During the initial scanning of the findings and identification of emerging themes, the researchers noted a very strong use of metaphors in the participants' answers. This was detected consistently across the different interview scripts leading to a decision to adopt metaphor analysis as the analytical framework to analyse data for the study. Participants' use of metaphors offered vivid visualisations of their perceptions of credit rating agencies as shown in their use of imagery, making the abstract subject of credit ratings and their regulations more accessible (Tourish & Hargie, 2012).

Overview of metaphors and metaphor analysis

A metaphor refers to "a mapping of entities, structures and relations from one domain (called the 'source') onto a different area (referred to as the 'target')" (Cornelissen & Kafouros, 2008, p.2). Use of metaphors facilitates the explanation of abstract, obscure, or unfamiliar phenomena using the analogy of other more familiar but different phenomena through imaging or picturing (Morgan, 1980). Metaphors play a crucial role especially when making complex and abstract organisational phenomena more accessible and easier to understand (Morgan (1980; 1983). Using metaphors therefore induces new conceptions and insights allowing for vivid inferences that may not have otherwise been imagined.

To analyse metaphors, Cassell & Lee (2012) identified two approaches:

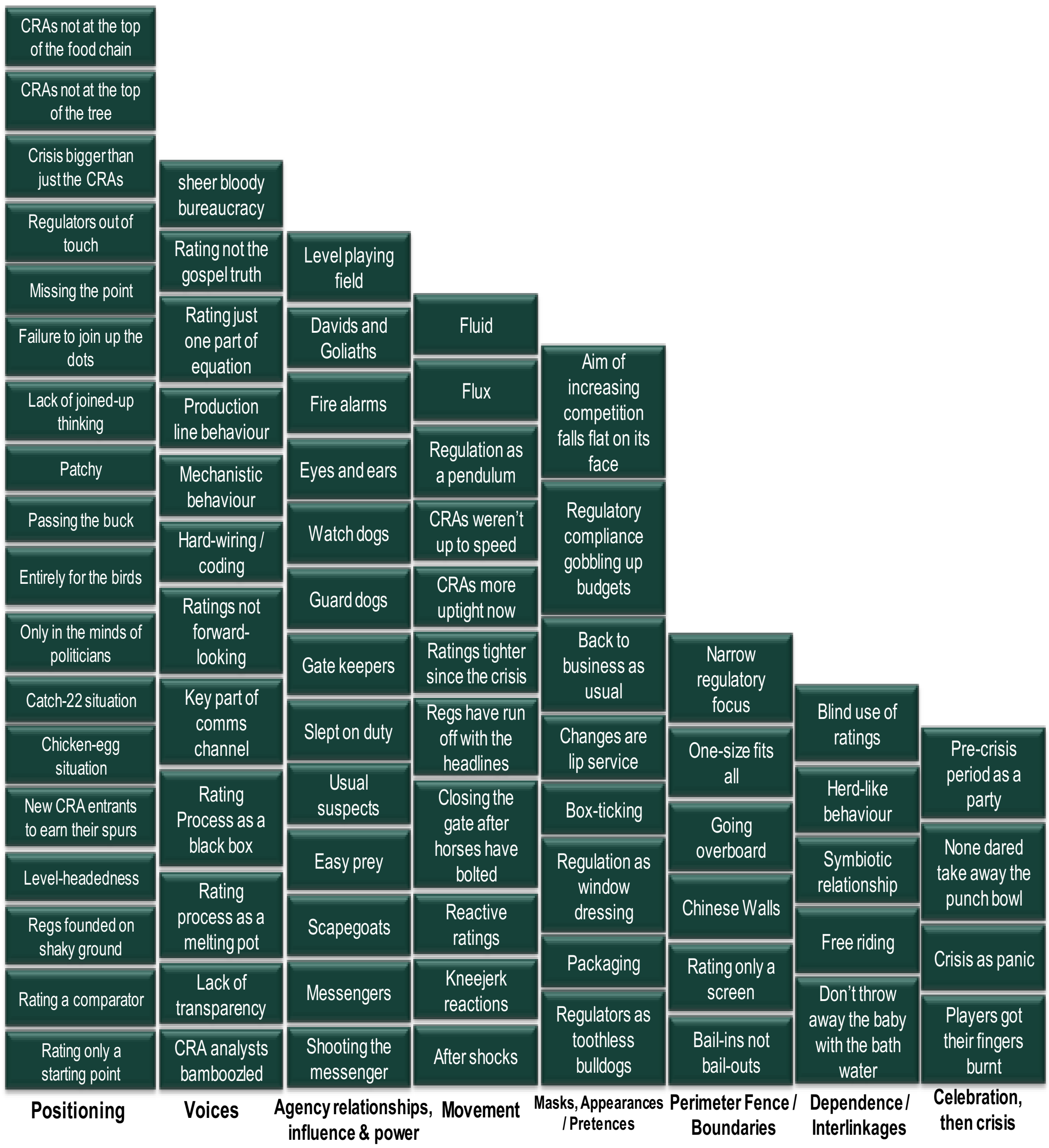
- Using a deductive approach to generate metaphors from outside the studied phenomena, imposing them on the study situation to better illuminate the studied phenomena (see for example Marshak, 1993).
- Employing an inductive approach, "identifying metaphors in the context of people's language-use and examining their uses, meanings and impacts" (Cornelissen, et al, 2008, p.10).

This study identified metaphors directly from the language used by participants, drawing out participants' own metaphoric conceptualisations of the studied phenomena. The identified metaphors represented participants' visualisations of reality in relation to the credit rating agency regulations. The metaphors depicted how reality was internalised and communicated by the study participants. To identify metaphors in this study, researchers initially read through participants' transcripts to identify words or phrases used outside of their usual contexts to convey vivid meanings of participants' attitudes or reactions to the EC regulations. The aim of the study was to see how participants interpreted and or made sense of the perceived effectiveness of the EC regulations and their requisite impact either on their own organisations, the UK securities market or the EU ratings market in general.

The metaphoric conceptions derived were interpretive, consistent with this study's interpretivist philosophical approach. At the conclusion of the study, 8 metaphor themes were identified, comprising a total of 77 metaphors. The 8 categories are summarised below.

1. **Positioning / structuring** metaphors denoting manoeuvring for influence and jostling for power and hierarchical positions in the ratings market;
2. **Voice metaphors** represented diverse, conflicting opinions and conceptions of ratings, rating agencies, their roles and regulation thereof;
3. **Power and influence** suggested contested regulatory spaces between regulated entities on one hand and rating agency regulators on the other, together with competitive dynamics among market participants;
4. **Movement metaphors** suggested active, dynamic, fluid, uncertain and self-structuring acts in the regulation of rating agencies;
5. **Dependence metaphors** depicted linked inter-dependencies and interrelationships prevalent in the securities market making it difficult to selectively deal with certain ratings elements while leaving others;
6. **Perimeter / Boundaries / Fences** metaphors suggested containment or fencing off undesirable ratings phenomena using relevant barriers. There was also an inference of contested regulatory boundaries as well;
7. **Celebration and crisis** metaphors depicted the seemingly careless and blind exuberant practices that characterised the pre-crisis era, punctuated by the subsequent harsh crisis and its requisite impact;
8. **Masks and appearance** metaphors suggested the masked realities of what was actually going on in the ratings market which represented a tip of the iceberg.

Figure 1: Typology of metaphors drawn from the study



Categorising metaphors in the above format facilitated the creation a typology of participants' contextual visualisations of phenomena in the regulation of credit rating agencies. Closer examination of the language used by participants revealed subliminal subconscious visualisations of rating agencies and their regulation.

Research Findings

Figure 1 shows metaphors identified from interview transcripts which were thematically grouped into eight categories which are further discussed in more detail below.

Movement metaphors denoted temporal, physical, figurative as well as virtual movement. This captured the "*fluid and flux*" state of the environment surrounding securities regulation. This portrayed the regulatory environment as lacking stability with a constantly shifting regulatory agenda. The fluidity and instability in the ratings landscape was said to cause anxiety among market participants, negatively impacting on market confidence as different regulatory provisions were changing so fast and not given enough time and scope to take effect.

Participants portrayed regulations as "*a pendulum*" which swung between extremes of no regulation on one end *(as was typical of the ratings market prior to the 2007-8 global financial crisis - Lynch, 2009)* and the extreme over-regulation on the other end (*as was alleged to be the case in the post 2007-8 crisis - Maris, 2009; Nichols et al., 2011)*. This visualisation suggested that study participants perceived a state of regulatory instability characterized by "*reactive*" regulatory attempts either heightening regulatory pressure or toning down regulations in response to market events or market outcries.

Findings suggested that regulatory efforts were reactive, fashioned on the basis of past crises, questioning the effectiveness of such regulatory efforts in preventing possible future crises. Study findings suggested that the regulatory efforts fell short of addressing the 2007-9 crisis as this had already come and gone yet regulatory efforts bore the DNA of this past crisis. Consequently, regulators were arguably "*closing the gate after the horses had bolted,*" suggesting that regulatory efforts were too little too late as they lagged behind market events with some participants arguing that the regulations were possibly politically-motivated.

After the crisis, ratings were said to be*"tighter*," as CRAs became more cautions and "*more uptight*" leaning towards more conservative ratings, a view echoed by Blume, Lim, & Mackinlay, (1998). Reviewing literature in this area suggested that CRAs indeed tended to over-compensate ratings after crises, with ratings likely to move from more optimistic to more conservative rating approaches (Baghai et al., 2011). In this regard, participants' perceptions mirror extant literature in visualising the erratic nature of ratings post major crises.

There was an observation that regulators "*weren't up to speed*" and "*reactive*", failing to keep up with the regulatory demands of the highly innovative and dynamic securities market. Regulatory efforts were said to be "*reactive and kneejerk,*" responding to "*aftershocks*" following the crisis. Regulators were said to be slow and unable to proactively contain developments in the securities market.

Participants asserted that regulators seemed to think and act on the cuff, spewing out regulations that appeared to be rushed and not well thought-through (Becker, 2011; Fisch, 2010). Consequently, regulatory provisions developed under such pressured environments were said to be fraught with unintended consequences that impeded market operations. The above scenario is not akin to that depicted by Lightfoot (2003) who lamented that the Glass-Steagall Act in the USA was reactive and not well thought-through, resulting in burdensome effects on market operations. The above parallel raises questions on the effectiveness of the EC regulations and the possible unintended consequences therefrom.

Study participants opined that "*regulators had run off with the headlines,*" suggesting that populism and fame took an upper hand in driving the regulatory agenda. This was said to be driven by media headlines which saw regulators taking shortcuts to appease media headlines as opposed to taking a long-term view of market problems. Regulations were said to be "*tick-box*" potentially causing damage to the market and compounding problems for future generations. The reactive nature of the regulatory approach was said to be evidenced through various regulatory revisions such as those from CRA1 through to CRA3.

Study participants argued that the regulatory attempts seemed politically-motivated and were short term, consistent with the short terms of office of the politicians behind the regulatory agenda. It was argued that politicians sought to tackle high media impact regulatory issues rather than focusing on long term market issues. Overall, the movement metaphors suggested a volatile and unstable ratings market landscape coupled with what was perceived as unhelpful regulatory promulgations.

The masks, appearances and pretence metaphors conveyed participants' perceptions of make-believe regulatory efforts in the ratings market. These gave a false sense of comfort and masked the grim reality of the complex and unstable ratings landscape. Regulators were visualized as "*toothless bulldogs*" on account of their non-binding regulatory provisions where non-compliance could easily be explained away. The EC regulatory efforts were said to be possibly futile, owing to a misdiagnosis of the real market problems which remained unresolved. Market participants therefore had little trust on the effectiveness of the regulations.

While lack of competition had been identified as one of the fundamental problems in the ratings market, the regulatory attempt to promote more competition was visualised as a "*catch-22*" situation which was "*falling flat on its face*" as the ratings market followed prescriptive investment guidelines which prescribed where ratings should come from and therefore rendered introduction of new competitors ineffective.

It was argued that despite having more rating agencies, some investors would prescribe ratings from the incumbent CRAs, underscoring the fact that just adding new and more CRAs was unlikely to be effective.

The metaphors in the masked realities category suggested that regulators were masking many unintended consequences, promoting illusions of regulatory benefits. One of the effects of the EC regulatory provisions was that "*regulatory compliance was gobbling up budgets*" and just a "*box ticking*" that appeased political agendas rather than address the real issues. The agendas behind the regulations were said to be "*up in the air*" with the market "*back to business as usual*" and the regulatory efforts viewed as "*window-dressing*" and "*packaging*" aimed at appeasing the electorate to score political points.

The perimeter fence and boundary metaphors used to suggest that CRAs had "*Chinese walls*" to mitigate possible conflicts of interest by separating their analysis from commercial activities. Regulatory efforts were depicted as "*overboard*" with regulators said to be overstepping their mandate with their "*one size fits all*" approach which was indiscriminate. The rushed regulatory efforts were said to be largely driven by the previous "*blind use of ratings*" which saw the use of ratings as a "*screen*" to complement other sources of due diligence. Study participants argued that if the problem in the ratings market was that of poor use of ratings, it could not be solved merely by regulating CRAs.

Relationships in the securities market were said to be "*herd-like*" where market participants tended to band together, particularly in times of ambiguity. These "*symbiotic relationships*" which were intricately linked were arguably corralling the market to act in unison. Despite its flaws, the issuer-pays model should not be completely discarded as that would be tantamount to "*throwing away the baby with the bath water*." On the other hand, proposals to consider an investor-pays ratings revenue model were said to create a "*free rider*" problem.

The period prior to the 2007-9 crisis was depicted as an exuberant "*party*" where "*none dared take the punch bowl away*" but led to a "*panic*" where people's "*fingers got burnt*" following the crisis. The EC regulatory efforts were said to be "*founded on shaky ground*" with some of the drivers arguably existing "*only in the minds of politicians.*" Regulators were arguably "*out of touch,*" divorced from reality and clouded by a lack of appreciation of what went on in the ratings market. Politicians and regulators arguably failed to "*join up the dots*" with a "*patchy*" approach to regulation resulting in regulatory pronouncements that were "*entirely for the birds*".

Efforts to introduce new CRAs and stimulate competition were viewed as a *"chicken-and-egg situation / catch-22 situation"* considering that "*new CRA entrants had to earn their spurs*" before gaining confidence of market participants. New CRAs were therefore unlikely to gain traction in the market, leaving the incumbents to dominate the market.

The often-polarised perspectives on credit ratings were depicted by voice metaphors. Rating methodologies were fraught with "*lack of transparency*" and likened to a "*black box*" despite the heavy reliance on ratings. Lack of transparency in credit ratings echoes sentiments of previous studies in this area (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 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.

Ratings' use was "*hard-coded / hard-wired*" into different investment guidelines, fueling "*mechanistic behaviours*" where ratings users rigidly relied on the rating symbols and failed to apply human judgement to broader environmental issues. This was said to be typical of a "*production line*" focusing on volumes and mass market activities, a dangerous analogy in a complex ratings landscape. It was important for users to note that ratings were "*not the gospel truth*" and "*just one part of the equation.*"

In the relationship, power and influence metaphors, CRAs were portrayed as victims of a systemic failure who became "*easy prey,*" and got blamed for the financial collapse even though theirs was perceived to be only a small part. Interestingly, various scholars have argued that CRAs were not victims but perpetrators of the 2007-9 debacle (Ryan, 2012). Some participants viewed CRAs as "*messengers, watchdogs, eyes and ears, guard dogs, and gatekeepers*" suggesting that CRAs were information intermediaries who "*slept on duty*" (Lombard, 2008). It can be concluded that CRAs had power and influence to sanction the flow of information and prevent wrong-doing but failed to act timeously, leading to the crisis (Alcubilla & Pozo, 2012; Fennell & Medvedev, 2012).

In their studies, Cassese and Casini (2012) portrayed CRAs as honey birds who signal the location of honey to bee-hunters, getting their reward upon successfully locating the honey. CRAs played an active signaling role but unlike honey birds, got their pay even after allegedly leading rating users astray.

The agency metaphors showed CRAs as merely conveying messages suggesting that they should not be blamed for the messages they carried 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. Study participants suggested that to have been the case with CRAs leading up to the crisis.

CRAs were portrayed as inanimate and mechanistic agents ("*fire alarms"*) meant to sound the alarm upon detecting danger. Questions abound as to whether CRAs timeously sounded the alarm ahead of the 2007-9 crisis. The implication here is that failure to sound the alarm on time signifies a malfunction on the purposes and possible design of the fire alarm, suggesting that CRAs failed to carry out their mandates. The portrayal of CRAs as "*eyes and ears*" reinforced their detection role, charging them with a responsibility to keep vigil over the securities market, a duty that CRAs are alleged to have failed to discharge competently.

The power dynamics in the securities market were said to create an "*uneven"* landscape characterized by "*Davids and Goliaths*" with power imbalances centred on resources and an unfavourable regulatory regime. The EC regulatory promulgations were said to further entrench incumbent CRAs, disadvantaging potential new CRAs from accessing traditional markets owing to stringent requirements on credibility and track record (Deb et al., 2011).

Overall, the results of the study suggested that the intents and format of the EC regulations rendered them ill-suited to address the ratings challenges on the ground. Arguably, the regulations were not well-thought-through and likely to have unintended adverse consequences for market players. The regulatory efforts were not well poised to effectively combat future crises as they were modelled on past crises in a market so dynamic that tomorrow's problems bore little resemblance to those of yesterday. Closer analysis of study participants' concerns suggested that regulators lacked appreciation of real issues on the ground owing to them being out of touch and divorced from reality. Study participants felt that closer engagement with and use of practitioners would have alleviated the knowledge gap on the part of regulators.

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 modelled 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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