Cabinet has approved the release of the Credit Ratings Services Bill for public comment, as announced in the Statement on the Cabinet meeting of 26 July 2011.

Credit ratings agencies are important actors in financial markets, and are designed to play a critical role in providing independent advice to investors, including on sovereign debt, equities and other investment products. By providing the market with independent, consistent and easy-to-use measures of credit risk, credit ratings agencies reduce the costs of investment and enhance market efficiency.

During the global financial crisis, weaknesses in the way these agencies rated particularly “sub-prime” securitised instruments highlighted the need to re-examine the way in which such agencies operate, especially given that such agencies were not appropriately regulated. In particular, given that globally financial institutions and institutional investors rely heavily on external ratings, such ratings should be constructed in an independent, transparent and rigorous way. Any weaknesses in this respect can generate uncertainty and exacerbate volatile markets, which can trigger general financial instability.

As these agencies operate at a global level, it became clear a global response was required. As a result, the G-20 jointly committed to regulating these agencies. Introducing a regulatory framework for credit ratings agencies is thus one of South Africa’s G-20 commitments. The Bill being released today seeks to align the South African regulation of CRAs with international best standards and practice, including the International Organisation of Securities Commissions Principles, G-20 countries’ regulation and the European Union’s equivalency requirement.

The Bill aims to:

- ensure that South African authorities can work with their international counterparts to ensure responsible and accountable credit rating agencies at a global level;
- protect the independence, integrity, transparency and reliability of the credit rating process and credit ratings;
- improve investor protection;
- improve the efficiency and transparency of financial markets; and
- reduce systemic risk.
National Treasury and the Financial Services Board have finalised the accompanying notices and regulations, and the Bill and all accompanying documents are available on the National Treasury (www.treasury.gov.za) and Financial Services Board (www.fsb.co.za) websites.

Comments on the Credit Rating Services Bill are invited from all interested stakeholders. A workshop will also be held in the course of August.

Written comments should be sent to Roy Havemann at financial.policy@treasury.gov.za or faxed to 012 315 5206 on or before 5 September 2011. Participants for the workshop should send their details to the same address by 12 August 2011.

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