MBAA811 – CORPORATE GOVERNANCE

Individual activity

Submission Date:

- 07 March 2020 (P);
- 09 March 2020 (V)

Use the passage below as a guideline and comply with the instruction as set out below:

"International credit rating agencies have had their fair share of controversies over the years. They have been at the center of the major financial crises from the financial markets collapse of New York City in the mid-1970s, the Asian financial crisis of 1997 - 1998, the Enron scandal of 2001, to the global financial crisis of 2008. All of these cost investors globally billions.

Rating agencies are meant to give comfort about and issuers ability to repay debt. Ratings are essential in determining the level of interest rate that a borrower must pay. In accurate ratings therefore distort both the prices of debt instruments and the interest rates payable on them. As history has shown this creates asset bubbles that eventually burst, disrupting the functioning of financial markets.

The three dominant international rating agencies - Standard & Poor's, Moody's and Fitch - have been accused of many faults including :

- false ratings;
- flawed methodology;
- encroaching on government policy;
- political bias;
- selective aggression;
- and rating shopping.

These shortcomings originate from the "user-pay" business model. The institution being rated pays for the rating which is used by investors. This means that the model has an inherent conflict of interest."*

Instruction

Write an essay with a critical assessment of rating agencies having regard for the following:

- The role of rating agencies in the national and international economy;
- the regulatory framework within which rating agencies function in South Africa;
- the use of codes of conduct;
- the enforcement mechanisms and
- the successes and failures of enforcement.

Take the following into account:

1. Compliance to the guidelines (Study Guide and Notes)

2. Overall control of quality (relevance, fonts, pages, headings, covering the issues)
3. Structure
4. Practical examples
5. Conclusion
6. Sources (Review of literature – at least 7 references)
7. Should you in your answer refer to legislation, please refrain from quoting sections verbatim. Rather say it in your own words.

The assignment should not exceed six typed pages. Title page, index, bibliography and annexure's excluded. Content, approach and technical compliance make up the 100 marks. (50 +25 +25= 100)

*Mutize M, - Why credit rating agencies are still getting away with bad behaviour. - THE CONVERSATION, 23 June 2019