STATEMENT ON BEHALF OF THE GROUP OF 77 AND CHINA BY H.E. AMBASSADOR PETER THOMSON, PERMANENT REPRESENTATIVE OF FIJI TO THE UNITED NATIONS, CHAIR OF THE GROUP OF 77, AT THE THEMATIC DEBATE ON "THE ROLE OF CREDIT RATING AGENCIES IN THE INTERNATIONAL FINANCIAL SYSTEM" (New York, 10 September 2013)

1. Thank you Mr. President for convening this important debate. I acknowledge and thank the distinguished speakers who have addressed us this morning. I have the honour to present this statement on behalf of the Group of 77 and China.

2. The financial and economic crisis demonstrated the urgent need for introducing internationally harmonized norms and standards for financial regulation and supervision, so that financial leverage and regulatory arbitrage does not endanger the stability of the global system.

3. High reliance on rating agencies increases the exposure of the financial system to the accuracy of ratings. Mistakes and biased forecasts have the potential to cause or exacerbate crises, rendering the financial system more vulnerable to cliff effects.

Mr. President,

4. In spite of recent regulatory proposals, the oligopolistic nature of the current credit rating regime combined with existing biases in the industry may also result in cliff effects. Theseoften arbitrary decisions which are enabled by the current regime hold notoriously harmful potential for nations, in particular developing nations.

5. When cliff effects occur, scarce resources that should be spent in much needed developmental programs are wasted on unnecessary signaling games. Not only does the arbitrary downgrading of sovereign debt force a country to pay higher interest rates, but it also forces countries to set aside more reserves to reassure investors. These signaling games, which aim to reassure markets, can end up generating a vicious feedback loop.

Mr. President,

6. The European Central Bank Report on Credit Rating Agencies has also pointed out that these agencies' actions involve conflicts of interest with corporate financial institutions to be evaluated by them, but which at the same time pay for the CRAs' services. Such conflicts of interests may also involve sovereign debts, including those of developing countries.

7. Because developing nations must sacrifice developmental programs to pay unnecessary higher debt services, they find themselves in a paradoxal situation: the CRAs that were part of the problem, now tell them that their risk has increased, further increasing debt servicing costs and further blocking Sovereign Nations from their development objectives. The rationale and ethics of this perverse mechanism are unacceptable. The core issue of CRAs and their biases is one that can affect debt sustainability in the developing world.

8. Authorities need to end the reliance of regulatory regimes and of market participants on external ratings, which can lead to herd behaviour and cliff effects in market prices when downgrades occur.There is a clear need to reduce reliance on credit rating agency (CRA) ratings.

Mr. President,

9. The Group of 77 and China encourages further steps to enhance transparency and competition among credit rating agencies. More transparency and expanded market competition would allow investors to compare the practices of CRA'S, and incentivize larger CRA's to update their internal policies and procedures to improve the quality of their credit ratings.

10. Taking all this into account, developing countries must be granted full and fair representation in reform efforts of standards and norm-setting and code formulating bodies outside the UN system, such as the Financial Stability Board and the Basel Committee on Banking Supervision.We need a more transparent international credit rating system that fully takes into account the needs, concerns, and peculiarities of developing countries.

11. Rating agencies should be required to provide information concerning their methodologies, overall past performance, conflicts of interests and other operational matters, which would enhance positive competition among rating agencies.

12. Market participants also need to improve their own capacity to make their own credit assessments in order that they can safely reduce their reliance on CRA ratings.

Mr. President,

13. There is a critical need for expanding the scope of regulation and supervision and making it more effective, with respect to all major financial centres, instruments and actors, including financial institutions, credit rating agencies and hedge funds. In this context, developing countries must be given flexibility to adequately regulate their financial markets, institutions and instruments consistent with development priorities and circumstances.

14. The imposition of needlessly onerous regulatory requirements on developing countries must cease. There should be effective, credible, and enforceable regulations at all levels, to ensure the needed transparency and oversight of the financial system.

15. Recognizing that the primary long-term goal of an enhanced surveillance must be to prevent another crisis, there is a need for even-handed and effective IMF surveillance of systemically important countries, major financial centres, international capital flows, and financial markets.

Mr. President,

16. In this context, the G77 and China considers that additional mechanisms are needed to allow for the assessment of, and the response to systemic risk posed by unregulated, or less regulated financial sector segments, centres, instruments, and actors.

17. Finally, the G77 and China believes that countries should disclose action plans that identify and prioritize further areas for changes in laws and regulations. A next important step would be to share lessons on the steps that can be taken by authorities to reduce references to CRA ratings in legislation and regulation and to promote strengthened credit assessment capabilities.

I thank you.