Risk Regulation at Transnational Level: Understanding the Role of Non-State Actors

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Risk, and how it can be managed or regulated, has become a very prominent issue in contemporary society. The financial crisis and the responses to it serve as good illustrations of that. And at a very different level it is visible in our department with the establishment of the new MSc programme *Economies, Risk and Society* that, amongst various other topics, looks at questions of risk and regulation in economic life. In my PhD research I am especially interested in the challenges that globalization poses to the regulation of risks. In a globalized world with markets spanning multiple nation-states and even continents, risks can transfer quickly and easily. This poses an additional layer of complexity with regard to how risks can be controlled and who can play a role in their control. In my thesis I aim to add to a growing regulation and governance scholarship which argues that regulation should no longer be considered as the prerogative of the state and that we need to develop a greater understanding of sources of control beyond the state.

There is a wide range of non-state actors that are now recognized as a source of regulatory control, from commercial firms to non-governmental organizations (NGOs) to consumers. All these have the potential to contribute significantly to the regulation of risk. This may be by sharing certain regulatory responsibilities with the state, but their involvement in regulation may also be entirely independent from the activities of the state. Non-state regulation can bring important benefits to the regulation of risk such as possibly greater expertise and flexibility. And at a transnational level non-state actors may be better equipped to address cross-border risks. At the same time, as with state regulation, there are also problems that can come with different forms of non-state regulation, for example with regard to the accountability and legitimacy of non-state regulators. Although such questions around the suitability, adequacy, efficiency and effectiveness of non-state involvement in regulation are important, they can only be answered if we first gain more knowledge about what that involvement of non-state actors in regulation looks like and how it works. This is where empirical research is especially valuable.

For my PhD research I have chosen to conduct a qualitative case study of the credit rating industry to learn more about how non-state actors may play a role in the regulation of risk at transnational level. In my thesis I aim to analyse how international credit rating agencies are a *de facto* regulator. Drawing on data collected through documents and interviews with former and current staff of rating agencies, I discuss the extent to which rating agencies partake in the regulation of risk in debt capital markets. I focus in particular on rating agencies' role in the setting of standards as they set out what contributes to a greater or smaller risk that debt will not be repaid by market participants such as companies and governments. Subsequently, I look at rating agencies continuous efforts to gather information to monitor whether those standards are met and to develop and update a particular credit rating.

In my thesis I argue that by doing what they do, rating agencies potentially modify market behaviour as ratings take on a life of their own once they are issued. Because rating agencies and credit ratings are strongly embedded in financial markets, ratings have substantial influence even after having been widely criticized in the aftermath of the global financial crisis of 2007-08. For example, ratings can serve as important determinants of the access to and the conditions under which access to capital markets is gained. Higher ratings, signalling limited risk, can lead to easier access to investors and lower interest rates. Whereas lower ratings, indicating higher risk, may make it more difficult to access certain investors and may lead to higher interest rates in order to compensate for the increase in risk. And although rating agencies do not necessarily seek or want a regulatory role, I will explain in my thesis that regulation is still regulation even if it occurs unintentionally as a consequence of something else.

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