THE CREDIT RATING RESEARCH INITIATIVE

AI and the Integrity of Credit Ratings

A UK POLICY BRIEFING ON SYSTEMIC RISK AND MARKET GOVERNANCE

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Executive Summary

The integration of artificial intelligence technologies within credit rating agencies (CRAs) represents a significant governance challenge for UK financial regulators. S&P Global, Moody's, and Fitch Ratings are rapidly deploying AI tools both within their internal rating processes and as client-facing products, fundamentally altering how creditworthiness is assessed in global financial markets.

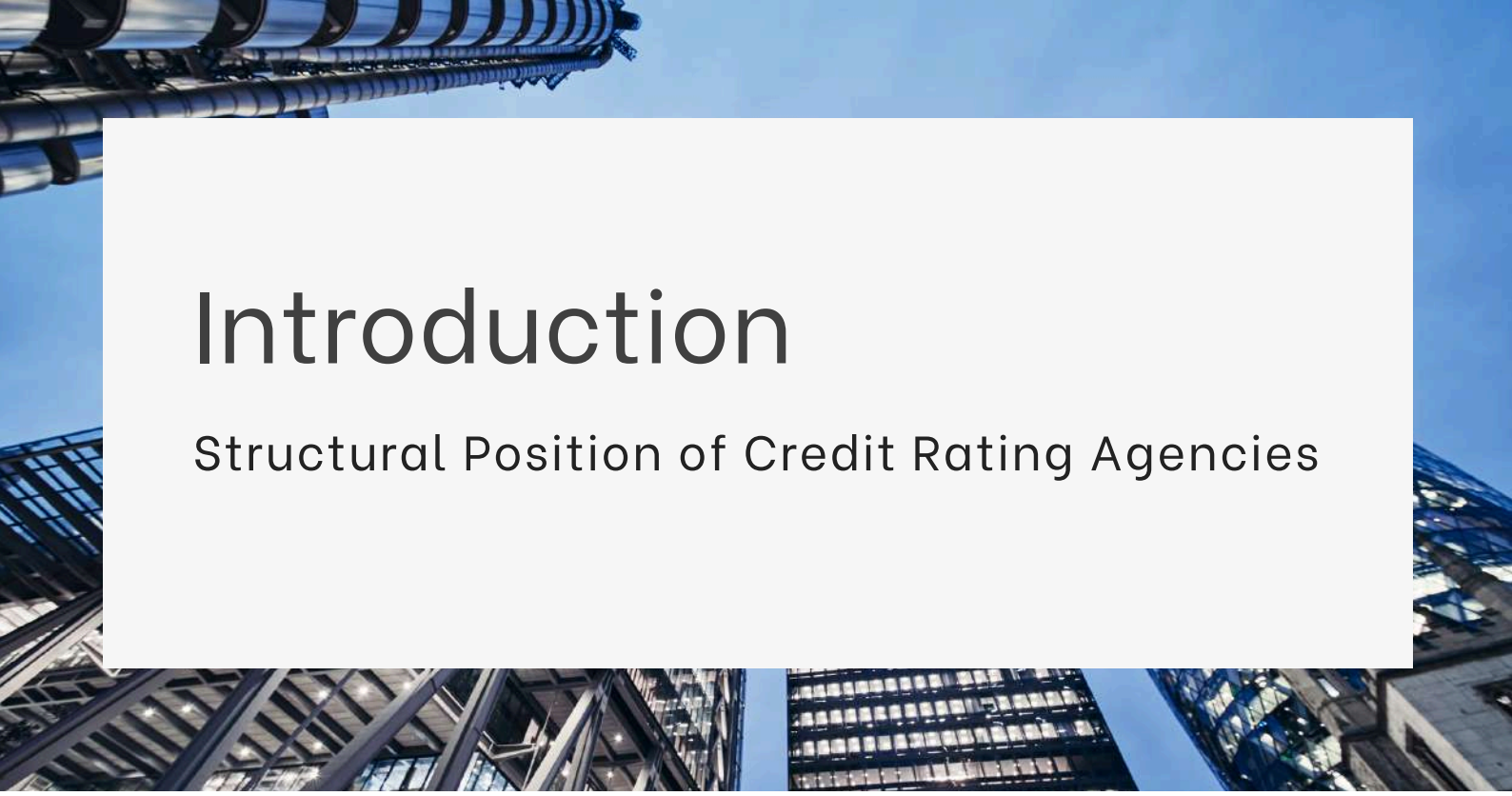
This transformation is occurring without adequate regulatory oversight. The leading CRAs are advancing toward what Moody's terms 'autonomous intelligence' – AI systems capable of interacting with limited human supervision. Both S&P Global and Moody's have acquired specialised AI firms to accelerate this transition and deployed internal AI platforms accessible to thousands of employees.

The structural position of CRAs as critical information intermediaries magnifies the potential consequences of this transition. Their ratings function as essential signalling mechanisms within financial markets, particularly for institutional investors bound by investment constraints. The adoption of AI introduces new systemic vulnerabilities at this critical market junction.

This report identifies three specific governance imperatives for UK regulators:

1. The Financial Conduct Authority should conduct a focused market study on AI integration within CRAs, establishing an evidence base for policy development.
2. A structured multi-stakeholder dialogue should be established to develop governance principles before AI integration becomes entrenched.
3. The UK should pursue a principles-based Code of Conduct for AI in credit rating processes, developed collaboratively between regulators and industry.

The UK has an opportunity to lead globally in the governance of AI within credit ratings – a critical but underexamined frontier of financial infrastructure. This requires a proactive, structured approach that supports innovation while safeguarding systemic stability.



Introduction

Structural Position of Credit Rating Agencies

Credit rating agencies occupy a position of unique structural importance within global financial markets. Their primary function – providing assessments of creditworthiness – serves to bridge information asymmetries between borrowers and lenders. This role has evolved from a relatively minor market function to a pivotal component of financial market infrastructure.

The modern CRA sector is dominated by three firms – S&P Global, Moody's, and Fitch Ratings – who collectively control over 94% of global ratings. The largest two agencies record annual revenues exceeding $3 billion each. This concentrated market structure amplifies their systemic importance.

ICRAs serve as critical signalling mechanisms within financial markets. Their value derives from two theoretical positions: independence from both borrowers and lenders, and their function as third-party evaluators. This role has been formalised through historic regulatory frameworks that reference credit ratings, particularly for institutional investors. Many investors are constrained by regulatory or mandate requirements to hold only 'investment-grade' securities, making CRA ratings determinative for market access.

The principal-agent relationship between asset owners and investment managers further embeds CRA ratings in market practice. Investment managers (agents) use ratings to demonstrate compliance with risk parameters to their principals (asset owners), creating a universal financial language based on the CRAs' rating scales.

This positioning makes CRAs essential market infrastructure rather than mere information providers. Consequently, technological changes to their rating processes have implications beyond efficiency improvements – they potentially alter foundational market mechanisms.

This report builds upon evidence submitted to the UK Treasury Select Committee and forms part of a broader research programme on AI governance in financial infrastructure.

The Integration of AI in Credit Rating Process

Credit rating agencies are integrating artificial intelligence technologies across two primary domains: internal rating processes and external client-facing products. Both applications represent significant shifts in how creditworthiness assessments are developed, distributed, and interpreted.

Internal Process Integration

The leading CRAs are actively developing and deploying AI tools that transform their internal rating processes. Moody's President Michael West has publicly described generative AI as 'an enabler to human judgment in the rating process', signalling a strategic commitment to AI integration. This integration has progressed rapidly through several implementations:

- **GitHub Co-Pilot adoption**: Moody's initially trialled GitHub Co-Pilot as a coding assistant, reporting productivity gains exceeding 50% for some users.
- **Moody's CoPilot development**: Following successful trials, Moody's built its own internal AI assistant that extends AI capabilities to non-technical staff across the organisation.
- **S&P Global Spark Assist**: S&P has developed an internal AI platform accessible to its 40,000 employees, allowing them to create 'prompts' that query databases and extract information across the organisation.
- **AI strategy progression**: Moody's has articulated a four-stage AI implementation strategy progressing from basic retrieval-augmented generation to 'autonomous intelligence' where multiple specialised AI agents interact with minimal human oversight

Both major CRAs are deploying advanced frameworks to support these developments, including Microsoft's Autogen and CrewAI. Notably, Moody's has acknowledged implementation challenges, stating that 'for more extensive cases in production, agents need to be tamed and their abilities constrained, in order to avoid hallucinations and to maintain alignment with user requirements'.

External Client Tools

In parallel with internal applications, CRAs are developing AI-enhanced products for their clients:

- **S&P Capital IQ Pro** includes AI-powered 'Document Intelligence' capabilities that allow users to generate reports by querying millions of documents.
- **Moody's Research Assistant** offers similar functionality, with Moody's reporting that users access 60% more data while reducing task time by 30%.
- Both tools fundamentally change how market participants interact with credit risk information, allowing for automated processing of vast document repositories

Strategic Acquisitions

The major CRAs are pursuing targeted acquisitions to accelerate AI capabilities:

- **QuantCube** (Moody's, 2018): AI-based predictive analytics for corporate clients and financial institutions.
- **ProntoNLP** (S&P Global, 2025): Specialised in generating insights from unstructured and structured data.
- **CAPE Analytics** (Moody's, 2025): Geospatial AI intelligence for property risk assessment.

These acquisitions indicate a strategic commitment to AI integration that extends beyond experimental applications to core business functions.

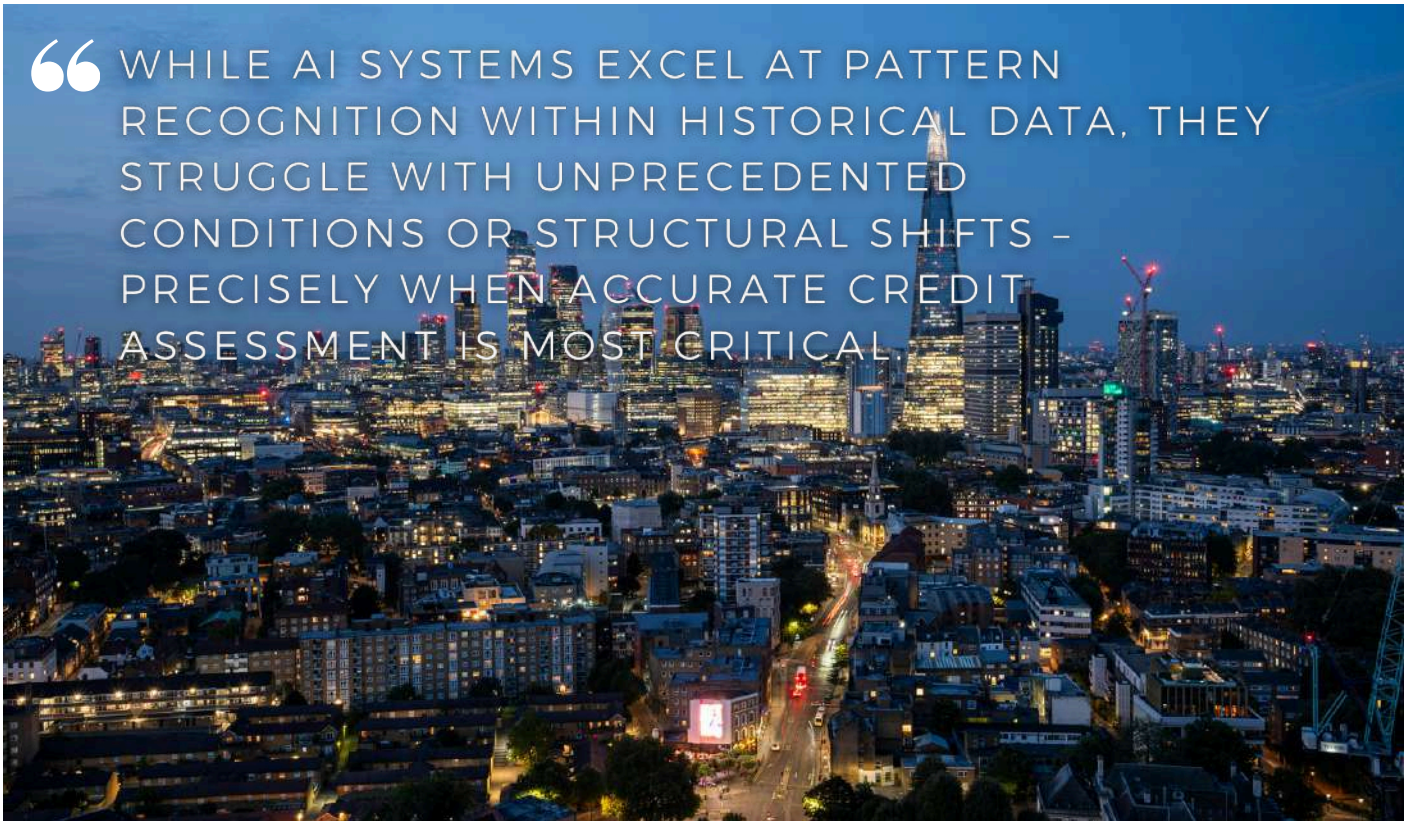
Governance Concerns

Structural Governance Risks in CRA–AI Integration

The integration of AI within credit rating processes introduces several governance challenges that require regulatory attention. These concerns stem from the intersection of CRAs' structural importance, the nature of AI systems, and historical patterns of market behaviour.

Interpretive Displacement

Credit ratings have traditionally balanced quantitative analysis with qualitative judgment. The progression toward autonomous AI systems risks displacing essential human interpretation, particularly in areas requiring contextual understanding or market psychology assessment. While AI systems excel at pattern recognition within historical data, they struggle with unprecedented conditions or structural shifts – precisely when accurate credit assessment is most critical.



Data Interpretation Risks

A central concern is the potential for AI systems to misinterpret underlying data. Historical precedent is instructive: during the global financial crisis, CRAs' misunderstanding of data related to residential mortgage-backed securities contributed significantly to market disruption. The Senate investigation into the crisis highlighted how analytical failures at CRAs precipitated 'an economic earthquake from which the aftershocks continue today'.

AI systems introduce new dimensions to this risk through:

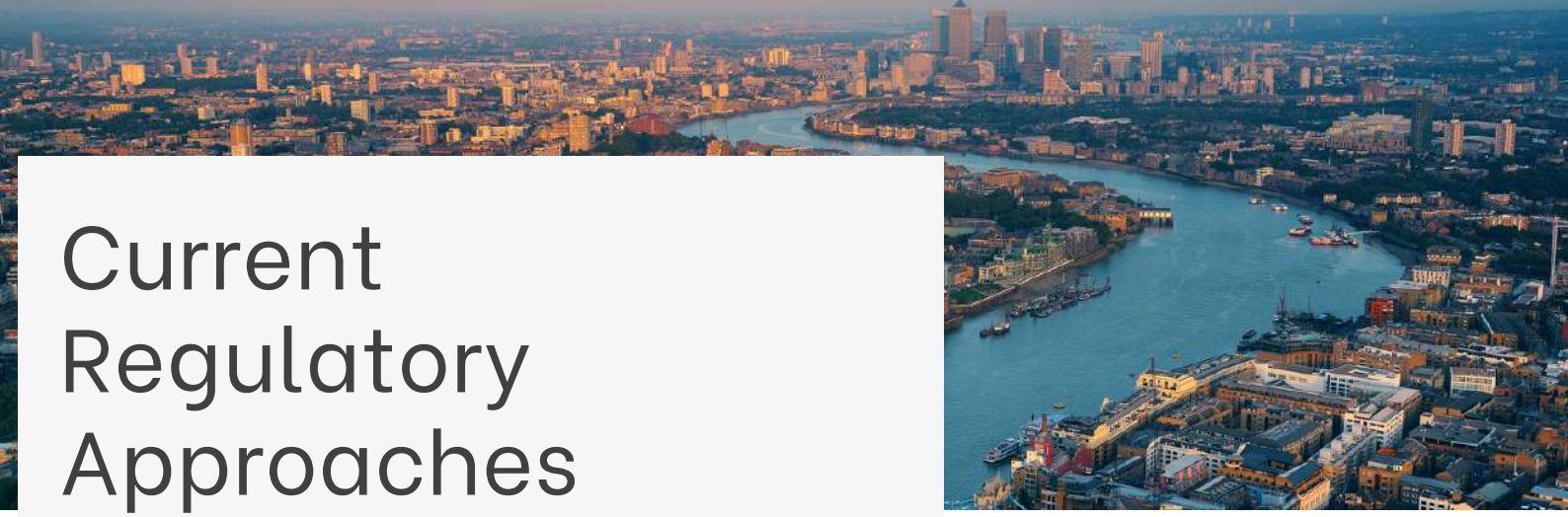
- Potential reinforcement of existing biases in credit assessment models.
- Difficulty in detecting data anomalies that fall outside training parameters.
- Challenges in validating AI interpretations of complex financial instruments.

Algorithmic Opacity

The 'black box' nature of advanced AI systems creates accountability challenges. As CRAs progress toward multi-agent frameworks and autonomous intelligence, the ability to trace decision pathways diminishes. This opacity has direct governance implications, as it complicates both regulatory oversight and market discipline functions.
Moody's own statement that 'agents need to be tamed' acknowledges the potential for AI systems to operate outside intended parameters. The implementation of AI 'judges' – using systems like Google's Cappy – to evaluate models against criteria represents an attempt to address this concern, but creates a recursive governance challenge: who evaluates the evaluators?

Diminishing Human Oversight

The progressive reduction in human oversight has specific implications for CRAs given their role in market signalling. Unlike many financial technologies that automate back-office functions, AI in credit ratings directly affects public market signals that guide capital allocation. The transition from human-supervised systems to semi-autonomous and eventually autonomous intelligence frameworks fundamentally alters accountability mechanisms within the rating process.



Current Regulatory Approaches

The regulatory response to AI integration within credit rating agencies remains underdeveloped globally, creating both risks and opportunities for UK governance frameworks.

Global Regulatory Landscape

Regulatory approaches to CRAs' adoption of AI technologies vary significantly across jurisdictions:

- **United States**: Despite maintaining one of the more comprehensive CRA regulatory framework through the SEC's Office of Credit Ratings, U.S. regulators have provided limited guidance on AI integration. No formal statements or consultations have addressed this specific intersection.
- **European Union**: The European Securities and Markets Authority (ESMA) has begun preliminary engagement, including a question on AI disclosure in a 2024 consultation. However, respondents criticised this approach as insufficiently serious and structured for addressing fundamental market infrastructure concerns.
- **United Kingdom**: The FCA, as the UK's designated regulator for CRAs, has not yet published specific guidance on AI integration. The recent establishment of the Critical Third-Parties Regime presents a potential regulatory framework that could encompass CRAs' AI systems.

Co-Regulation Challenges

The predominant emerging regulatory approach – co-regulation – presents specific challenges in the CRA context. Co-regulation, where privately agreed standards and norms are given authority by the state, offers potential benefits including technical appropriateness and market participant buy-in.
However, this approach has significant limitations when applied to systemically important market infrastructure:

- It potentially allows regulated entities to influence fundamental governance parameters.
- It may prioritise industry consensus over broader market stability considerations.
- It can create information asymmetries between regulators and regulated entities regarding technological implementation.

The UK House of Lords' 2024 report on Large Language Models and Generative AI acknowledged this tension, suggesting the UK should 'forge its own path on AI regulation, balancing rather than copying the EU, US, or Chinese approaches'. This creates an opportunity for the UK to develop a distinctive governance approach tailored to financial stability imperatives.

Policy Recommendations for the UK

FCA-led Market Study on AI in Credit Ratings

The UK has a strategic opportunity to establish governance leadership at the intersection of AI and credit ratings. Three specific policy initiatives would position the UK at the forefront of this critical regulatory domain:

1. **FCA-Led Market Study on AI in Credit Ratings**

The Financial Conduct Authority should conduct a focused market study examining CRAs' integration of AI technologies. This would establish an evidence base for policy development through:

- Systematic assessment of current AI implementation across CRAs operating in the UK.
- Evaluation of governance controls surrounding AI integration.
- Analysis of potential systemic implications for UK financial markets.
- Identification of specific risk vectors requiring regulatory attention.
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This study should include mandatory information gathering from CRAs rather than relying solely on voluntary disclosure. The resulting evidence would enable proportionate, targeted regulatory responses.

Policy Recommendations for the UK

Multi-Stakeholder Governance Dialogue

2. **Multi-Stakeholder Governance Dialogue**

The UK should establish a structured dialogue between CRAs, civil society, market participants, and regulators to develop governance principles before AI integration becomes entrenched. This forum would:

- Identify governance expectations from diverse stakeholders.
- Develop consensus positions on appropriate boundaries for AI application.
- Establish transparency principles for AI usage in rating processes.
- Create accountability mechanisms for algorithmic decision-making.

This collaborative approach would build on the UK's strengths in financial innovation while ensuring broader public interest considerations inform governance frameworks.

Policy Recommendations for the UK

Principles-Based Code of Conduct

3. **Principles-Based Code of Conduct**

The UK should pursue a principles-based Code of Conduct for AI in credit rating processes, developed collaboratively between the FCA and industry participants. This approach would:

- Establish clear governance expectations without constraining innovation.
- Provide a structured framework for oversight and accountability.
- Create a foundation for international regulatory coordination.
- Balance industry technical expertise with public interest imperatives.

This Code should address specific governance domains including:

- Human oversight requirements for rating determinations.
- Transparency obligations regarding AI utilisation.
- Testing and validation standards for AI systems.
- Model governance and risk assessment frameworks.

Conclusion

The integration of artificial intelligence within credit rating agencies represents a significant governance challenge requiring proactive regulatory attention. The structural importance of CRAs within financial markets amplifies the potential consequences of this technological transition.

As other jurisdictions delay or defer regulation, the UK can distinguish itself by acting early on the specific risks AI poses within credit rating governance. This requires moving beyond generic AI governance frameworks to address the specific systemic implications of AI in credit rating processes.

By pursuing targeted market studies, facilitating structured stakeholder dialogue, and developing principles-based governance standards, the UK can establish a regulatory approach that balances innovation with financial stability. This proactive stance would position the UK at the forefront of financial governance in the AI era.

About the Author

Dr. Daniel Cash is the lead researcher at the Credit Rating Research Initiative, specialising in the legal and regulatory frameworks governing credit rating agencies. He has published extensively on credit ratings, financial regulation, and governance structures, including his forthcoming book The Risk of Artificial Intelligence in Credit Ratings (Springer, 2025), which provides comprehensive analysis of AI integration in credit rating processes (alongside Dr Nataliya Tkachenko). Dr. Cash has provided expert evidence to legislative committees and regulatory consultations on credit rating governance across multiple jurisdictions. This report forms part of Dr. Cash's broader programme on credit rating governance and the regulatory implications of AI in global financial infrastructure.