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The Rating Agencies and Their Credit Ratings Credit Rating Governance Credit Ratings The Rating Agencies and Their Credit Ratings The role of credit rating agencies. A blessing or a curse Credit Rating and the Impact on Capital Structure The Independence of Credit Rating Agencies Ratings, Rating Agencies and the Global Financial System Are Credit Rating Agencies Useful? A Modern Credit Rating Agency Are Credit Rating Agencies useful? Regulating Credit Rating Agencies Handbook of Credit Scoring Credit Ratings and Market Over-reliance Credit Rating Agencies Credit Ratings and Sovereign Debt The Role of Credit Rating Agencies in Responsible Finance Credit Rating Agencies. What Impact Do They Have and Do We Really Need Them? MBS Ratings and the Mortgage Credit Boom Sovereign Credit Rating Credit Risk Management The Nonlinear Relationship Between Public Debt and Sovereign Credit Ratings Sovereign Debt and Rating Agency Bias Sovereign Credit Ratings Methodology A Comparative Analysis of Internal and External Credit Ratings The Credit Rating Industry Private Ratings, Public Regulations The Impact of Three Credit Ratings on Interest Cost Basel III Credit Rating Systems Developing, Validating and Using Internal Ratings Handbook on International Best Practices in Credit Rating The Role of Credit Rating Agencies in the Structured Finance Market The Economics of Credit Rating Agencies Rating Politics Rating Through-the-Cycle Assessing the Current Oversight and Operations of Credit Rating Agencies The Economics of Credit Rating Agencies Perfect Credit A Modern Credit Rating Agency Sovereign Credit Ratings and Spreads in Emerging Markets

The Rating Agencies and Their Credit Ratings

2010-04-01

credit rating agencies play a critical role in capital markets guiding the asset allocation of institutional investors as private capital moves freely around the world in search of the best trade off between risk and return however they have also been strongly criticised for failing to spot the asian crisis in the early 1990s the enron worldcom and parmalat collapses in the early 2000s and finally for their ratings of subprime related structured finance instruments and their role in the current financial crisis this book is a guide to ratings the ratings industry and the mechanics and economics of obtaining a rating it sheds light on the role that the agencies play in the international financial markets it avoids the sensationalist approach often associated with studies of rating scandals and the financial crisis and instead provides an objective and critical analysis of the business of ratings the book will be of practical use to any individual who has to deal with ratings and the ratings industry in their day to day job reviews rating agencies fulfil an important role in the capital markets but given their power they are frequently the object of criticism some of it is justified but most of it portrays a lack of understanding of their business in their book the rating agencies and their credit ratings herwig and patricia langohr provide an excellent economic background to the role of rating agencies and also a thorough understanding of their business and the problems they face i recommend this book to all those who have an interest in this somewhat arcane but extremely important area robin monro davies former ceo fitch ratings at a time of unprecedented public and political scrutiny of the effectiveness and indeed the basic business model of the credit rating industry and heightened concerns regarding the transparency and accountability of the leading agencies this book provides a commendably comprehensive overview and should provide invaluable assistance in the ongoing debate rupert atkinson managing director head of credit advisory group morgan stanley and member of the sifma rating agency task force the langohrs have provided useful information in a field where one frequently finds only opinions or misconceptions they supply a firm base from which to understand changes now underway a well read copy of this monograph should be close to the desk of every investor issuer and financial regulator legislator or commentator john grout policy and technical director the association of corporate treasurers

Credit Rating Governance

2015-01-30

credit rating agencies play an essential role in the modern financial system and are relied on by creditors and investors on the market in the recent financial crisis their power and reliability were often questioned yet a simple rating downgrade could threaten to bankrupt a whole country this book examines the governance of credit rating agencies as expressed by their ability to fairly ethically and consistently assign higher rates to issuers having lesser default risks however factors such as the drive for increased revenue and market share the inadequate business model the inadequate methodology of assessing risk opacity and inadequate internal monitoring have all been identified as critical governance failures for credit agencies this book explores these issues and proposes some potential solutions and improvements this will be of interest to researchers and advanced students of corporate finance finance financial economics risk management investment management and banking

Credit Ratings

2002

the only title that combines discussion and analysis on the methodologies employed by the major rating agencies together with those actually implemented internally by credit practitioners from financial institutions

The Rating Agencies and Their Credit Ratings

2008

this title is a guide to ratings the ratings industry and the mechanics and economics of obtaining a rating it sheds light on the role that the agencies play in the international financial markets

The role of credit rating agencies. A blessing or a curse

2019-02-18

seminar paper from the year 2011 in the subject economics finance course bank financial management language english abstract this report is examining the role of credit rating agencies and in further details arguments in its favor and against its favor are examined in the beginning the role of credit rating agencies is defined and later methodological approaches to this topic are discussed and afterwards an analysis of pros and cons of credit rating agencies is conducted to the end recommendations and suggestions to credit rating agencies for better performances are listed generally credit rating agencies are playing vital role in markets and they united dispersed information comprehensively through this approach it is easier for investors or issuers to understand the real position of different concerns before taking any final decisions beside this fact it is also in observation that credit rating agencies have some flaws which need to be addressed like favoritism and unsolicited credit rating issuance it is recommended to have transparency scheduled active ratings and strict follow up with regulated authorities

Credit Rating and the Impact on Capital Structure

2010-03-25

seminar paper from the year 2009 in the subject business economics banking stock exchanges insurance accounting grade 1 3 university of hohenheim lehrstuhl für bankwirtschaft und finanzdienstleistungen language english abstract the question about capital structure is one of the most important issues which the management of a company faces in implementing their daily business therefore the question of which factors affect capital structure decisions attracts high attention in the past and recent literature on capital structure there are many papers providing valuable insights into capital structure choices starting with the paper of modigliani and miller 1958 the mm theorem is generally considered a purely theoretical result since it ignores important factors in the capital structure decision like bank ruptcy costs taxes agency costs and information asymmetry based on this paper many other theories which consider factors neglected by modigliani and miller have been evolved two major theories are the tradeoff and the pecking order theory the former loosens assumptions stated in the mm theorem by including bankruptcy costs and taxes while the latter introduces information asymmetry into the capital structure discussion chapter 2 1 will give a brief overview of these theories for complexity reasons these models cannot capture all relevant factors affecting the capital structure policy of a company however all these theories disregard one cru cial factor which plays an important role on capital markets all over the world the significance of credit ratings is gradually increasing and it is doing so in many re spects this paper focuses on the credit rating capital structure hypotheses crcs developed by darren j kisgen as a modern approach to the capital structure discussion the hypothesis argues that credit ratings have an impact on capital struc ture decisions due to discrete costs benefits associated with a rating change firstly reasons why credit ratings are material for capital structure decisions will be out lined then situations in which credit rating effects play a role will be examined for this issue it is very important to show how it can be measured whether a firm is con cerned about a rating change or not afterwards the cr cs will be empirically tested the traditional theories don t explain the results obtained in these tests therefore credit rating effects will be combined with factors discussed in the tradeoff and pecking order theory in subsequent empirical tests credit rating factors will be integrated into previous capital structure test to show that the results of the cr cs tests remain statistically significant

The Independence of Credit Rating Agencies

2013-10-22

the independence of credit rating agencies focuses on the institutional and regulatory dynamics of these agencies asking whether their business models give them enough independence to make viable judgments without risking their own profitability few have closely examined the analytical methods of credit rating agencies even though their decisions can move markets open or close the doors to capital and bring down governments the 2008 financial crisis highlighted their importance and their shortcomings especially when they misjudged the structured financial products that precipitated the collapse of bear stearns and other companies this book examines the roles played by rating agencies during the financial crisis illuminating the differences between u s and european rating markets and also considers subjects such as the history of rating agencies and the roles played by smaller agencies to present a well rounded portrait reports on one of the key causes of the 2008 financial crisis agencies that failed to understand how to analyze financial products describes inherent business model and pricing conflicts that compromise the independence of credit rating agencies reveals how rating agencies large and small regulatory bodies and vested interests interact in setting fees and policies

Ratings, Rating Agencies and the Global Financial System

2012-12-06

ratings rating agencies and the global financial system brings together the research of economists at new york university and the university of maryland along with those from the private sector government bodies and other universities the first section of the volume focuses on the historical origins of the credit rating business and its present day industrial organization structure the second section presents several empirical studies crafted largely around individual firm level or bank level data these studies examine a the relationship between ratings and the default and recovery experience of corporate borrowers b the comparability of credit ratings made by domestic and foreign rating agencies and c the usefulness of financial market indicators for rating banks among other topics in the third section the record of sovereign credit ratings in predicting financial crises and the reaction of financial markets to changes in credit ratings is examined the final section of the volume emphasizes policy issues now facing regulators and credit rating agencies

Are Credit Rating Agencies Useful?

2018-08-22

seminar paper from the year 2018 in the subject business economics investment and finance grade 1 7 university of strathclyde business school course international financial markets and banking language english abstract this assignment will examine whether credit rating agencies can be regarded as useful in order to do so two given academic papers will be analysed and discussed supplemented by further academic literature the first of the two is a working paper by efraim benmelech called credit ratings qualitative versus quantitative information the second one is called what s wrong with credit ratings and written by frank partnoy before looking at these papers in greater detail it is important to provide a general definition of cras gavras defines cras as private companies which assess credit risk for companies and governments seeking to take out loans and issue fixed income securities arnold states that this risk assessment comes in the form of a rating which represents the cras opinion of the rated entity s creditworthiness i e its ability to repay its debt both gavras and arnold remark that the rating ultimately affects the price and interest rate paid by the borrower on the debt instrument having generally defined cras the authors of the two given papers also provide their own views both benmelech and partnoy agree with gavras regarding the importance of cras in today s credit markets and the strong influence these agencies have they also agree that cras played a major part in the 2007 08 financial crisis in his paper benmelech evaluates rating by s p global ratings inc and concludes that they are vastly quantitative and thus can easily be predicted and substituted by an algorithm that uses just ten financial variables on a similar note partnoy believes that rating methodologies are highly uninformative that numerous reforms after the financial crisis have failed and that the unchanged overreliance of investors and regulators on these ratings should be reduced

A Modern Credit Rating Agency

2023-09-22

this book aims to present a picture of one of the world s leading credit rating agencies credited as being the first credit rating agency moody s stands as the epitome of the rating sector and all that it effects however outside of internal and non public histories compiled within the rating agency itself the story of moody s has never been told until now however this is not a historical book rather this book paints a picture of moody s on a wider canvas that introduces the concept of rating to you taking into account the origins of the sector the competitive battles that formed the modern day oligopoly and the characters that have each taken their turn on sculpting the industry that today is critical to the modern economy the book is a story of personable people who provided the market with what it needed but it is more than that it is a story of conflict impact strategy and most of all the relationship between big business and modern society standing as the gatekeeper to the capital markets that form the core of modern society moody s represents the very best of what the marketplace can produce but also the very worst this story takes in economic crises in the antebellum us the panics of the early 1900s the wall street crash and the great depression and of course the global financial crisis it does this because at the heart of each one was a member of the rating industry or the reporting industry that preceded it associated with almost any financial scandal you may care to remember the credit rating agencies in their often uncomfortable role as gatekeepers have their fingerprints on most financial scandals and calamities this book tells the story of the industry s founding member

Are Credit Rating Agencies useful?

2018-05-24

essay from the year 2018 in the subject business economics banking stock exchanges insurance accounting grade 69 university of strathclyde language english abstract credit rating agencies are defined by dittrich 2007 as companies which provide an opinion about the credit worthiness of a particular company security or obligation by rating them on the basis of several parameters which are traditionally not publicly known they also rate bonds issued by governments and municipal bonds specifying their ability to service their debts on the contrary according to partnoy 2017 they usually provide an alphabetical letter score which symbolises the forward looking opinion of the credit rating agency on the credit worthiness of the rated obligor on a specific date therefore the credit rating agencies are able to reduce information asymmetry by providing useful information to participants in debt markets and potential investors which makes the credit rating agencies highly important as claimed by utzig 2010 this transparency of information would otherwise not be available on the other hand benmelech 2017 describes credit rating agencies as reputational intermediaries that bridge the information gap between issuers and investors by their ability to produce and accumulate credible information about debt issues the score awarded by rating agencies enables the investor to decide whether or not to invest their money the credit rating agency market is as pointed out by benmelech 2017 dominated by three big players as an oligopoly research by partnoy 2017 and esma 2016 discovered that moody s investors service plc and s p global ratings inc s p control the market with around 80 percent market share followed by fitch ratings inc which controls a further 15 percent

Regulating Credit Rating Agencies

2013-09-30

øŠaline darbellay analyzes the obvious system relevance of credit rating agencies in depth and assesses the possible options for regulatory responses to this systemic issue thereby the book is based on a fruitful comparative legal approach and formul

Handbook of Credit Scoring

1995-03

credit scoring is a vital and sometimes misunderstood tool in financial services evaluates the different systems available bankers and lenders depend on credit scoring to determine the best credit risks and ensure maximum profit and security from their loan portfolios handbook of credit scoring offers the insights of a select group of experts on credit scoring systems topics include scoring applications generic and customized scoring models using consumer credit information scorecard modelling with continuous vs classed variables basic scorecard development and validation going beyond credit score data mining scorecard collection strategies project management for credit scoring

Credit Ratings and Market Over-reliance

2017-06-26

7 1 3 evidence of over reliance on credit rating legislative references 7 2 anticipating the post crisis debate on over reliance 7 2 1 cra message to the regulators 7 2 2 cra message to the users of credit ratings concluding remarks 8 conclusions 8 1 taking stock of the situation 8 2 developing an assertion into certainty providing evidence of over reliance 8 3 encouraging more dialogue and coordination at all levels 8 4 ensuring more of a level playing field among credit risk assessment tools 8 5 looking ahead concluding remarks bibliography index

Credit Rating Agencies

2021-01-31

this short book introduces and explores the complex world of the credit rating industry how it works how it has evolved the role it played in the financial crisis and how it is regulated giulia mennillo shows as constitutive actors of global financial capitalism cras have a social and political relevance that reaches well beyond finance

Credit Ratings and Sovereign Debt

2014-06-19

bartholomew paudyn investigates how governments across the globe struggle to constitute the authoritative knowledge underpinning the political economy of creditworthiness and what the neoliberal fiscal normality means for democratic governance

The Role of Credit Rating Agencies in Responsible Finance

2018-12-17

this palgrave pivot aims to examine the bourgeoning relationship between the principles for responsible investment and the credit rating industry since may of 2016 when the partnership was initially publicised the pri have endeavoured to incorporate credit rating agencies into its initiative via its esg in credit ratings initiative and have been working diligently to find and create common ground between credit rating agencies and institutional investors seeking to be more forward looking in their investment approaches however in recent years the big two credit rating agencies standard poor s and moody s have finally received record fines for their conduct in the run up to the financial crisis there is a need then to examine the incorporation of the credit rating agencies into such a progressive initiative to achieve this objective this book examines the field of responsible investing the credit rating industry and the power dynamic that exists between the rating industry investors and the pri via its initiative

Credit Rating Agencies. What Impact Do They Have and Do We Really Need Them?

2015-11-03

fachbuch aus dem jahr 2015 im fachbereich vwl geldtheorie geldpolitik note 1 3 fom essen hochschule für oekonomie management gemeinnützige gmbh hochschulleitung essen früher fachhochschule sprache deutsch abstract this assignment analyses the impact of credit rating agencies on the financial market focusing on corporate institutions in the case of enron a former american energy commodities and services company it received good credit ratings up until four days before bankruptcy other examples like lehman brothers or worldcom show that moody s s p and fitch still rated these companies as safe investments days before their bankruptcy credit rating agencies influence about 80 of the world market capital the industry is dominated by s p and moody s which lead to a lack of competition ratings have an impact on the overall economic performance recently proofed by the financial crisis caused in the us subprime mortgage market the conflict of interest occurs from the issuer pay model where almost all credit ratings are paid by the issuer of the instrument cras are governed by the international organization of securities commissions iosco which established a code for conduct fundamentals for cras a voluntary code without enforcement mechanisms authorities have responded with a range of regulatory reforms there is currently no consensus on a common set of reform the overall rating agencies do not take any responsibility for damage caused to governments or investors

MBS Ratings and the Mortgage Credit Boom

2010-11

studies credit ratings on subprime and alt a mortgage backed securities mbs deals issued between 2001 and 2007 the period leading up to the subprime crisis the fraction of highly rated securities in each deal is decreasing in mortgage credit risk ratings contain useful info for investors there was also evidence of significant time variation in risk adjusted credit ratings incl a progressive decline in standards around the mbs market peak between 2005 and mid 2007 conditional on initial ratings they observe underperformance high mortgage defaults and losses and large rating downgrades among deals with observably higher risk mortgages based on a simple ex ante model and deals with a high fraction of opaque low documentation loans

Sovereign Credit Rating

2016-12-19

the current degradation of sovereign balance sheets raises very real concerns about how sovereign creditworthiness is measured by credit rating agencies given the disastrous economic and social effects of any downgrade the book offers an alternative and calls for more transparency about the quantitative measures used in calibrating the rating process and how sovereign ratings are validated it argues that oversight is required and procedures improved including subjecting methodologies of assessing default to more standardization and monitoring sovereign credit rating explains the process of sovereign creditworthiness assessment and explores the consequences of possible inaccuracies in the process developing an innovative new methodology to assess ratings accuracy it shows that the announcement of each rating action by the major credit rating agencies show alarming inconsistencies written by an internationally recognized author and professor this unique book will be of interest to researchers and advanced students in corporate governance accounting public finance and regulation

Credit Risk Management

2007-05-11

credit risk management is a comprehensive textbook that looks at the total integrated process for managing credit risk ranging from the risk assessment of a single obligor to the risk measurement of an entire portfolio this expert learning tool introduces the principle concepts of credit risk analysis explains the techniques used for improving the effectiveness of balance sheet management in financial institutions and shows how to manage credit risks under competitive and realistic conditions credit risk management presents step by step coverage of the credit process discussing the operational practices and structural processes to implement and create a sound credit environment the lending objectives explaining the credit selection process that is used to evaluate new business and describing how transaction risk exposure becomes incorporated into portfolio selection risk company funding strategies presenting an overview of the funding strategies on some of the more commonly used financial products in the extension of business credit company specific risk evaluation outlining some fundamental credit analysis applications that can be used to assess transactions through the framework of a risk evaluation guide qualitative specific risk evaluation offering additional approaches to risk evaluate a borrower s industry and management credit risk measurement defining the role of credit risk measurement presenting a basic framework to measure credit risk and discussing some of the standard measurement applications to quantify the economic loss on a transaction s credit exposure credit portfolio management exploring the basic concepts behind credit portfolio management and highlighting the distinctive factors that drive the management of a portfolio of credit assets compared to a single asset credit rating systems analyzing the pivotal role that credit rating systems have come to play in managing credit risk for lenders the economics of credit showing how the modern credit risk approach has changed the economics of credit in order to achieve more profitable earnings and maintain global stability in the financial markets filled with a wide range of study aids credit risk management is today s best guide to the concepts and practices of modern credit risk management offering practitioners a detailed roadmap for avoiding lending mishaps and maximizing profits

The Nonlinear Relationship Between Public Debt and Sovereign Credit Ratings

2019-07-26

this study investigates the nonlinear relationship between public debt and sovereign credit ratings using a wide sample of over one hundred advanced emerging and developing economies it finds that i higher public debt lowers the probability of being placed in a higher rating category ii the negative debt ratings relationship is nonlinear and depends on the rating grade itself and iii the identified nonlinearity explains the differential impact of debt on ratings in advanced economies versus in emerging markets and developing economies these results hold for both gross debt and net debt and are robust to alternative dependent variable definitions analytical techniques and empirical specifications these findings underscore the potential for fiscal consolidation in helping countries achieve a better credit rating

Sovereign Debt and Rating Agency Bias

2017-08-15

sovereign debt and credit rating bias rejects the notion that credit rating agencies rigorous and transparent determination of ratings leaves no room for bias and debunks the myth that the value cras place on their reputational capital precludes prolonged biases to determine the extent of cras biased actions tennant and tracey apply a rigorous methodology to a well established economic model of the determinants of sovereign debt quality they present strong evidence of bias against poor countries and demonstrate how biased rating changes could disadvantage such countries and the companies operating therein as they seek access to international capital markets they discuss plausible explanations for the bias and suggest remedial measures that would help ensure balance in credit rating changes this book fills an important gap by rigorously examining a long standing but often ignored concern about the rating practices of credit rating agencies

Sovereign Credit Ratings Methodology

2002-10

this paper describes and evaluates the sovereign credit ratings methodologies of standard poor s moody s investors service and fitch ratings a simple definition of ratings failure based on ratings stability is proposed and tested pointing to falling failure rates consistent upside bias and strong interagency correlation possible causes of ratings failure are separated into informational analytical revenue bias and other incentive problems each of which is discussed the paper seeks to highlight methodological developments after the asian crisis particularly with regard to the estimation of contingent liabilities and the assessment of international reserves adequacy

A Comparative Analysis of Internal and External Credit Ratings

2016-06-08

bachelor thesis from the year 2015 in the subject business economics investment and finance grade 1 5 ebs european business school ggmbh language english abstract the text contains a comparative analysis of internal and external credit ratings it compares and explains both concept and concludes what impact both have on the mid market companies in germany in 2012 mid market companies kmu based in germany generated revenues of 2 149 0 billion euros they are responsible for 35 3 of all revenues generated in germany these mid market companies employed 15 97 million people a workforce of 59 6 of all employees in germany ifm bonn 2014 clearly mid market companies are elementary for the german economy to continue to be a primary motor of the economy they need sufficient funding nevertheless financing for mid market companies in germany will become more difficult standard poor s ratings services 2015 pp 2 3 estimated that european mid market companies are going to have difficulties to meet their financing needs as banks reduce their lending to the mid market sector as consequence of stricter regulations especially smaller mid market companies face problems to access credit loans standard poor s financial services llc 2014 p 3 the reason for these difficulties is the implementation of basel iii financial institutions have to deleverage their business during the next years zainzinger 2013 the problem is that mid market companies traditionally relied on bank funding especially german mid market companies relied on credit loans from financial institutions huber simmert 2007 p 167 196 the new regulations for deleveraging create a scarcity of finance for european companies it will generate an acute financing problem for mid market companies dimitrijevic wade 2014 pp 1 2 in 2013 the german mid market financing gap already amounted to 38 9 billion euros kfw 2014 p 7 therefore these companies have to find new funding sources they have to find solutions to improve the access to external financing credit ratings provide an opportunity to help in this process the existence of credit ratings is widely known they often appear in several newspapers and magazines handelsblatt 2014 nevertheless various mid market companies cannot estimate the impact and importance of credit ratings specifically differences between internal credit and external ratings are often unclear

The Credit Rating Industry

2007-08-01

this study provides a comprehensive analysis of credit rating economics and draws conclusions on the nature of regulation it starts with an overview of the credit rating industry and introduces a framework that structures multiple rating agency functions at the heart of the credit rating business model lies the reputation mechanism which is analyzed in detail after analyzing the reputation mechanism the study takes a wider look at the industry and identifies the forces behind credit rating supply and demand from an industrial organization perspective competition in the credit rating industry is limited a comprehensive review of potential reasons for regulating the credit rating industry however reveals that there are only few compelling arguments the regulatory approaches of the eu under the capital requirements directive of 2005 and the usa under the credit rating agency reform act of 2006 are contrasted against an optimal regulatory regime

Private Ratings, Public Regulations

2011-05-11

credit rating agencies play a powerful and contentious role in the governance of global financial markets introducing an original framework for delegating political authority to private actors this book explains common trends in the regulatory use of private ratings for public purposes and analyzes regulatory changes after the financial crisis

The Impact of Three Credit Ratings on Interest Cost

1999

more than ever banking competition is based on the ability to control the cost of risk and can only be managed with excellent internal rating models and very advanced risk management processes this book is a comprehensive guide to quantitative and qualitative rating assessments with up to date methodologies in the international banking system

Basel III Credit Rating Systems

2011-12-19

this book provides a thorough analysis of internal rating systems two case studies are devoted to building and validating statistical based models for borrowers ratings using spss pasw and sas statistical packages mainstream approaches to building and validating models for assigning counterpart ratings to small and medium enterprises are discussed together with their implications on lending strategy key features presents an accessible framework for bank managers students and quantitative analysts combining strategic issues management needs regulatory requirements and statistical bases discusses available methodologies to build validate and use internal rate models demonstrates how to use statistical packages for building statistical based credit rating systems evaluates sources of model risks and strategic risks when using statistical based rating systems in lending this book will prove to be of great value to bank managers credit and loan officers quantitative analysts and advanced students on credit risk management courses

Developing, Validating and Using Internal Ratings

2011-06-20

the economics of credit rating agencies explores the economic and regulatory issues and frictions associated with credit rating agencies in the aftermath of the financial crisis while ratings and other public signals are important they can discourage independent due diligence and be a source of systemic risk the authors highlight the diverse underlying views towards these competing approaches to reducing systemic risk and discuss the subtle contrasts between credit rating agencies and other types of due diligence providers such as auditors analysts and proxy voting advisors after an introduction section 2 provides a broad discussion of ratings in the regulatory framework as well as how ratings potentially crowd out private information production and the risks associated with overreliance on ratings in market pricing section 3 contrasts credit rating agencies with alternative gatekeepers such as auditors analysts and proxy voting advisers section 4 describes the difficulty of selling information and the underpinnings of the payment model for various financial information intermediaries under alternative assumptions section 5 discusses of rating agency analyst conflict of interest an important aspect of credit ratings is the feedback effect that arises when a firm s behavior responds to the change in the cost of funding that is influenced by the rating feedback effects arise because of contractual triggers but also through coordination and learning channels section 6 discusses these channels and especially the learning channel section 7 discusses selection issues including rating shopping and the contrast between solicited and unsolicited credit ratings section 8 contrasts ratings across products including sovereign debt and rating agencies the nature of competition and the role of entry and reputation in the credit rating agency space are explored in section 9 section 10 examines why ratings matter as well as techniques for identifying the real effects of ratings the authors provide concluding observations and takeaways about rating agencies that emerged as a byproduct of the financial crisis in section 11

Handbook on International Best Practices in Credit Rating

2008

how do countries political and policy choices affect the credit ratings they receive sovereign ratings influence countries cost of funding and observers have long worried that rating agencies these unelected unappointed unaccountable for profit organizations can interfere with democratic sovereignty if they assign lower ratings to certain political and policy choices the questions of whether how and why ratings react to policy and politics however remain unexplored rating politics opens the black box of sovereign ratings to uncover the logic that drives rating responses to political and policy factors relying on statistical analysis of rating scores interviews with sovereign rating analysts and a close reading of the official communications of rating agencies about their decisions zsófia barta and alison johnston show that ratings penalize center left governments and many though not all policies associated with the center left agenda the motivation for such penalties is not rooted in assumptions about how those political and policy features affect growth and debt servicing capacity instead ratings are lower in the presence of those features because they are expected to make a country more vulnerable to market panics whenever the economy is hit by unforeseen shocks as they signal insufficient willingness and or ability to engage in determined austerity for the sake of reassuring markets since market panics and the resulting sudden stops of funding lead to humiliating collapses of ratings rating agencies attempt to insure themselves against rating failures by pre emptively assigning lower ratings to countries with the wrong political and policy mix

The Role of Credit Rating Agencies in the Structured Finance Market

2008

credit rating agencies face a difficult trade off between delivering both accurate and stable ratings in particular its users have consistently expressed a preference for rating stability driven by the transactions costs induced by trading when ratings change frequently rating agencies generally assign ratings on a through the cycle basis whereas banks internal valuations are often based on a point in time performance that is they are related to the current value of the rated entity s or instrument s underlying assets this paper compares the two approaches and assesses their impact on rating stability and accuracy we find that while through the cycle ratings are initially more stable they are prone to rating cliff effects and also suffer from inferior performance in predicting future defaults this is because they are typically smooth and delay rating changes using a through the crisis methodology that uses a more stringent stress test goes halfway toward mitigating cliff effects but is still prone to discretionary rating change delays

The Economics of Credit Rating Agencies

2017

we explore through both an economics and regulatory lens the frictions associated with credit rating agencies in the aftermath of the financial crisis while ratings and other public signals are an efficient response to scale economies in information production these also can discourage independent due diligence and be a source of systemic risk though dodd frank pulls back on the regulatory use of ratings it also promotes greater regulation of the rating agencies we highlight the diverse underlying views towards these competing approaches to reducing systemic risk our monograph also discusses the subtle contrasts between credit rating agencies and other types of due diligence providers such as auditors analysts and proxy voting advisors we discuss the frictions associated with paying for information in the context of credit ratings while the issuer pay model has been identified as a major issue because of potential conflict of interests we argue that it has several advantages over the investor pay model in promoting market transparency we develop a formal reputation model to explore the underlying nature of rating inflation and how the reputational trade off is affected by various aspects of the rating process such as regulatory constraints the fee structure asymmetric information between issuers and investors and the extent of competition among rating agencies the monograph also uses our illustrative framework to highlight tension between rating accuracy and economic efficiency when ratings influence project value in the presence of feedback effects we discuss how selective disclosure of ratings by the issuer distorts the distribution of observed ratings selection also provides an alternative explanation for why solicited purchased ratings exceed unsolicited complimentary ratings and helps interpret the greater sec support for unsolicited ratings in recent years as illustrating the theory of the second best we explore the impact of greater competition on welfare building upon a variety of frameworks our analysis points to several ways in which ratings matter as well as techniques for documenting such effects

Rating Politics

2023-04-03

perfect credit offers consumers an easy to follow blueprint on how to get superb credit and how to sidestep numerous credit traps and pitfalls along the way

Rating Through-the-Cycle

2013-03-08

this book aims to present a picture of one of the world s leading credit rating agencies credited as being the first credit rating agency moody s stands as the epitome of the rating sector and all that it effects however outside of internal and non public histories compiled within the rating agency itself the story of moody s has never been told until now however this is not a historical book rather this book paints a picture of moody s on a wider canvass that introduces the concept of rating to you taking into account the origins of the sector the competitive battles that formed the modern day oligopoly and the characters that have each taken their turn on sculpting the industry that today is critical to the modern economy the book is a story of personable people who provided the market with what it needed but it is more than that it is a story of conflict impact strategy and most of all the relationship between big business and modern society standing as the gatekeeper to the capital markets that form the core of modern society moody s represents the very best of what the marketplace can produce but also the very worst this story takes in economic crises in the antebellum united states the panics of the early 1900s the wall street crash and the great depression and of course the global financial crisis it does this because at the heart of each one was a member of the rating industry or the reporting industry that preceded it associated with almost any financial scandal you may care to remember the credit rating agencies in their often uncomfortable role as gatekeepers have their fingerprints on most financial scandals and calamities this book tells the story of the industry s founding member

Assessing the Current Oversight and Operations of Credit Rating Agencies

2007

sovereign investment grade status is often associated with lower spreads in international markets using a panel framework for 35 emerging markets between 1997 and 2010 thispaper finds that investment grade status reduces spreads by 36 percent above and beyond what is implied by macroeconomic fundamentals this compares to a 5 10 percent reduction in spreads following upgrades within the investment grade asset class and no impact formovements within the speculative grade asset class ceteris paribus while global financial conditions play a central role in determining spreads market sentiment improves with lower external public debt to gdp levels and higher domestic growth rates

The Economics of Credit Rating Agencies

2017

Perfect Credit

2018

A Modern Credit Rating Agency

2024

Sovereign Credit Ratings and Spreads in Emerging Markets

2011-03-01

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