



THE CREDIT RATING RESEARCH INITIATIVE

MONTHLY NEWSLETTER - APRIL 2021



INCLUDED THIS MONTH

BY DANIEL CASH

In this first edition of the CRRRI's monthly newsletter, there are details on the latest updates from the credit rating world, ranging from fines to downgrades. There are 5 books reviewed, and a range of articles. In addition to this month's CRRRI blogs, there are a number of events signposted also, particularly in Europe regarding sustainability disclosure developments.

Please do spread the word of the CRRRI and this newsletter with your network, and if you have additions for next month's newsletter please do let us know!

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CRRRI NEWSLETTER

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Updates from the Credit Rating World

MORNINGSTAR ASKS FOR DISMISSAL

In relation to a charge from the SEC in February regarding the violation of disclosure and internal control requirements, Morningstar has recently asked a Judge in New York to dismiss the lawsuit. This request for dismissal is on the grounds of the firm's belief that whilst the firm did make particular adjustments, their independence to do so is protected by Congress. They believe that they met all of the disclosure requirements also. More [here](#) from Reuters. Sticking with Morningstar, the firm has recently joined with JP Morgan and Broadridge to invest in the Tifin Group, which is an umbrella group comprising of a number of fintech companies within the asset and wealth management industry. More [here](#) from FinExtra.

MORNINGSTAR™



JP MORGAN CHASE DOWNGRADED AFTER EUROPEAN SUPER LEAGUE FIASCO

Standard Ethics, the sustainability rating agency, downgraded JP Morgan this month to 'non-compliant', on account of its support of the failed 'European Super League' project in Europe. The project, which would see the continent's top football clubs breakaway from recognised associations, was preliminarily backed by JP Morgan for more than \$3bn, as was rumoured. More on the story and the downgrade can be read [here](#) via The Guardian.

BIG THREE WARN ON RUSSIA'S FUTURE AFTER US SANCTIONS

The international rating agencies have all declared that recent sanctions from the US against Russia, for the meantime, will not have a massive effect upon the country's macroeconomic picture. However, all warn that further sanctions, which the US has declared are possible (although not wanting to seek escalation), could have a more impactful effect upon Russia's macroeconomic standing if they were to be implemented. More [here](#) from Reuters.



NOMURA AND CREDIT SUISSE DOWNGRADED

Nomura and Credit Suisse, two major banks caught up in the Archegos Capital scandal, have been downgraded by both Moody's and Fitch for their involvement. Nomura, Japan's largest investment bank, has come in for particular scrutiny with regards to its appetite for risky lending. More [here](#) from the Financial Times.



CHINA TIGHTENS ITS GRIP ON DOMESTIC CREDIT RATING AGENCIES

China has continued its push to tighten the regulation surrounding its domestic credit rating agencies this month (as extensively covered in our blog). The People's Bank of China and four other associated regulators have pushed to develop a new appraisal system for the domestic agencies, within which the default ratios and the methodologies behind the ratings are to be overhauled. This is in direct response to a number of large and often state-supported business failing recently. More [here](#) from the SCMP.



ESMA FINES MOODY'S

Earlier this month, ESMA fined Moody's €3.7m. Spread across five of its European-based entities, the fine related to a breach of conflict of interest rules relating to the ownership of entities the agency is rating. Credit rating agencies, under European legislation, are not allowed to rate entities whereby a shareholder within the agency holds more than 10% of the entity being rated. ESMA found that the breaches were a result of Moody's negligence. More can be read [here](#) via FinExtra.



JAMAICA'S HOLNESS CALLS FOR MORE FROM CREDIT RATING AGENCIES

Jamaican Prime Minister, Andrew Holness, has argued that the credit rating agencies need to be closer to the potential negotiations between vulnerable debtor countries and their creditors via the two multilateral initiatives developed by the IMF and the World Bank, with the support of the G20 - The Debt Service Suspension Initiative (DSSI) and the Common Framework (CF) that has followed it. His argument, and the context, can be found [here](#) via Jamaica Observer.



MOODY'S IMPROVES ITS COMPLIANCE ANALYTICS

Lastly. Moody's announced earlier this month that it had launched and integrated its 'Grid Database' of adverse news, sanctions, and Politically Exposed Persons (PEPs) into Bureau van Dijk's 'Compliance Catalyst' platform. This allows for Moody's Analytics to provide more detailed screening for businesses to comply with the Know-Your-Customer and Anti-Money Laundering Rules that are in place (and increasing). More [here](#) from Business Wire.

MOODY'S ANALYTICS

HUARONG DOWNGRADED BY FITCH

The collapse of state-backed Chinese Huarong Asset Management Co. has drawn comparisons with the credit rating agencies' conduct regarding Lehman Brothers. After a tumultuous 2020 and 2021, the firm has only recently lost its high-level ratings. The large offshore issuer has seen all three international rating agencies drop their ratings on the firm in a rapid manner, with Fitch recently dropping the rating by three notches at once. The article in Bloomberg opines that it is a 'bit too little, too late'. You can read more [here](#).



CALLS FOR THE NEW SEC HEAD TO TAKE MORE ACTION

Calls are growing for the new head of the SEC - Gary Gensler - to take action in a number of areas of the US financial arena, including the credit rating industry. There have been warnings for the agencies that the new regime will be less tolerant of transgressive behaviour, with repeated calls for something to be done regarding the impact of the issuer-pays conflict of interest. More from the Financial Times [here](#).



Latest Publications on the Credit Rating World

AM BEST TRILOGY

AM Best has published 3 books recently all revealing aspects of their historic business. The books are a great insight into the development of the company, the industry, and then the company's founder. They can be found [here](#).



SUSTAINABILITY RATING AGENCIES VS CREDIT RATING AGENCIES: THE BATTLE FOR THE MAINSTREAM INVESTOR

Daniel Cash, via Palgrave Macmillan, recently published 'Sustainability Rating Agencies vs Credit Rating Agencies: The Battle to Serve the Mainstream Investor'. The book examines the two industries and charts their collision within the field of meeting the need for finance and investing to become 'sustainable'. It can be found [here](#).



CREDIT RATING AGENCIES

Towards the end of last year, Giulia Mennillo, via Agenda Publishing, published a short book on the industry and its nuances. It can be found [here](#).



RECENT ARTICLES

There have been a number of interesting academic articles published recently. They include: 'Elements of Credit Rating: A Hybrid Review and Future Research Agenda' by Ubarhande and Chandani [here](#); 'Sovereign credit ratings: Discovering unorthodox factors and variables' by Choy, Chit, and Teo [here](#); 'Financial centre bias in sub-sovereign credit ratings' from Ioannou, Wokcik, and Pazitka [here](#); 'Does political ideology affect a government's credit rating? The evidence on parties' socio-cultural positions in European Countries' by Sychowiec [here](#); 'The Rescue of American International Group Module A: The Revolving Credit Facility' by Buchholtz and Lawson [here](#); 'Sustainability rating and moral fictionalism: Opening the Black Box of nonfinancial agencies' by Boiral et al, [here](#); 'International credit rating agencies in Africa: Perceptions, Trends, and Challenges' by Mutize and Nkhalamba, [here](#); and 'Dividend Smoothing and Credit Rating Changes' by Asimakopoulos and Asimakopoulos [here](#).



This Month's CRRI Blog Posts

This month's blog posts from the CRRI included: 'The Eurasian Economic Commission Calls for its Own Credit Rating Agency', available [here](#); 'The SEC is Pushed to take a Stronger Approach to Credit Rating Reporting', available [here](#); and 'Huarong Issues Hint at Deeper Issues for the Credit Rating Agencies and their New Chinese Adventure', available [here](#).



THE CREDIT RATING
RESEARCH INITIATIVE

Notices



THE CREDIT RATING RESEARCH INITIATIVE

As it is the first edition of the Newsletter, the CRRI would like to ask for your help in furnishing it with any news you may have or be aware of, and then spreading news of the Initiative and its newsletter! You can get in touch and share any news with us via Daniel Cash (d.cash@aston.ac.uk), via Daniel Cash on LinkedIn via direct message or including him in any news that you come across, or via the CRRI's Twitter account @CRRI.

EVENTS

There are a range of events being held this month, and the following provides you with access to those events:

[S&P](#)

[Moody's](#)

[Fitch](#)

[Morningstar](#)

[CountryRisk](#) (and [blog](#))

There are three ESMA events coming that may be of interest: 'High-level conference on a proposal for a Corporate Sustainability Reporting Directive - The Way Forward' on the 6th May (link [here](#)); The Joint Consultation on Taxonomy-Related Sustainability Disclosures ends 12th May, and you can [respond here](#) before that date; and on the 18th May speakers from ESMA and European Commission will be speaking at the 'BVI Conference: Sustainability/ESG Data - Need and Reality', which you can register for [here](#).

If you would like your organisation added to this list, please just let us know!

