



THE CREDIT RATING RESEARCH INITIATIVE

MONTHLY NEWSLETTER - NOVEMBER 2021



INCLUDED THIS MONTH

BY DANIEL CASH

In this November edition of the CRRI's monthly newsletter, there are a number of stories, ranging from the continued building of credit rating empires, regulatory rules for ESG rating agencies, and a range of warnings from credit rating agencies.

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

THIS MONTH IN THE
CRRI NEWSLETTER

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Updates from the Credit Rating World

CREDIT RATING AGENCIES CONTINUE TO BUILD THEIR EMPIRES

Moody's added to its growing empire with the purchase of Bogard AB. Bogard AB provides information on Politically Exposed Persons (particularly in the Nordic region) and the newly acquired company will help to strengthen the agency's risk assessment capabilities to address financial crime, according to the agency's KYC boss. You can read more [here](#).

Moody's was not alone in building its empire this week, with Fitch consolidating its partnership with Sigma Ratings. The consolidation means that Sigma's proprietary risk monitoring capabilities will be further integrated into Fitch's systems, with the aim being to expand the agency's ability to incorporate financial crime data into its ratings and analysis. You can read more [here](#).



S&P Global

PROBLEMS FOR S&P AND IHS MARKIT DEAL

However, the deal for S&P to purchase IHS Markit hit a snag this month, even after the EU had given the deal its blessing once S&P promised to divest particular parts of its newly-acquired company. The British regulator the Competitions and Markets Authority announced that it was halting the divestment whilst it continued to conduct investigations involving the shape of the market once the deal would be completed; the regulator fears that competitive choice for market participants would be lessened if the deal was to go through as it is, and as it was proposed after talks with the EU. For more on this, you can read [here](#). For the full story you can read [here](#).



NEW RESEARCH TAKES DIFFERENT PERSPECTIVES ON BEST APPROACH TO CREDIT RISK

KBRA this month published research wherein it argued that whilst quantitative-based models have their usage in credit analysis, a more dynamic and varied approach is required. Whilst not dismissing quantitative research, there was in the article a heavy emphasis on qualitative approaches to capture the dynamism of the real world when it comes to creditworthiness. You can read their article [here](#).

Mark Adelson, in his latest piece in the Journal of Structured Finance, discussed the different failures within the credit rating space during the Financial Crisis. The piece discusses new angles using reflective data. Details of the piece are available [here](#).

THE AGENCIES SOUND WARNINGS TO THE MARKET

Moody's, along with S&P, have been sounding warnings to the marketplace regarding the dangers that are building in the largely unregulated private credit market. The [private credit markets](#) describes a system whereby non-banking entities are lending directly, in a further move away from traditional intermediated lending systems. You can read more about the warnings coming from the Big Two credit rating agencies [here](#).

Towards the end of the month, Moody's issued a warning to the European Central Bank regarding the level of assistance it provides to Greece as it battles back to solvency after years of financial turmoil. The ECB's Extraordinary Quantitative Easing Programme is due to end soon, and Moody's has clearly stated that it believes Greece will not be able to cope, financially, if the ECB does not provide support after the Programme ends. The report suggests that yields will increase etc., but reading between the lines there is a direct threat of downgrades if something is not put in place. You can read more about the warnings [here](#).



THE WORLD BANK AND AFR CALL FOR MORE TRANSPARENCY IN CRA METHODOLOGIES

David Malpass, the head of the World Bank, has called for more debt transparency in the developing world. He says that there is a funding gap of over \$400b and if the developing world are going to attract what is needed, then there needs to be more transparency. He calls on credit rating agencies and civil society to foster the required transparency. You can read more of his call [here](#).

Americans for Financial Reform have this month argued that the lack of climate change consideration by the rating agencies is having the result of major insurance companies being 'undercapitalized against future losses'. The argument is based on a lack of transparency within the credit rating agencies' methodologies and how they are applied. For their argument and suggestions as to how to develop this situation for the better, see [here](#).



IOSCO LAYS DOWN ITS 10 COMMANDMENTS FOR ESG RATING AGENCIES

This month, after a period of consultation, IOSCO has published its report which contain its 'ten commandments' for ESG Data/Rating providers. The ten suggestions do not contain much detail, although there is an argument to say that the aim of the report was to act as a starting pistol for securities regulators around the world to begin building and implementing a regulatory framework for ESG Data/Rating providers, all aligned to ten key principles. The report issued by IOSCO is available [here](#).



IOSCO

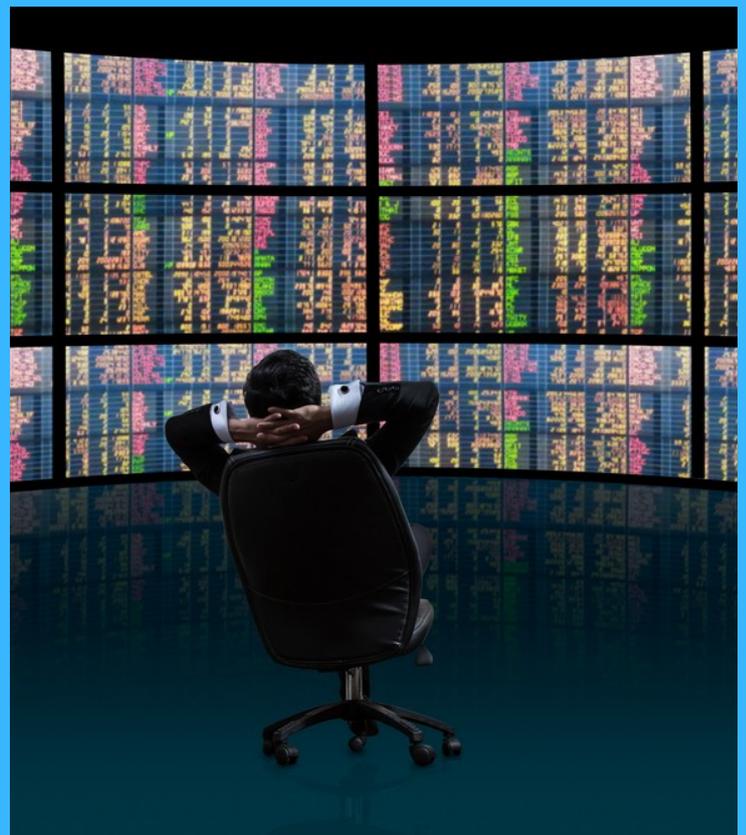


SCHOLARS HIGHLIGHT PROBLEMS WITH ESG RATING OF SUPPLY CHAINS

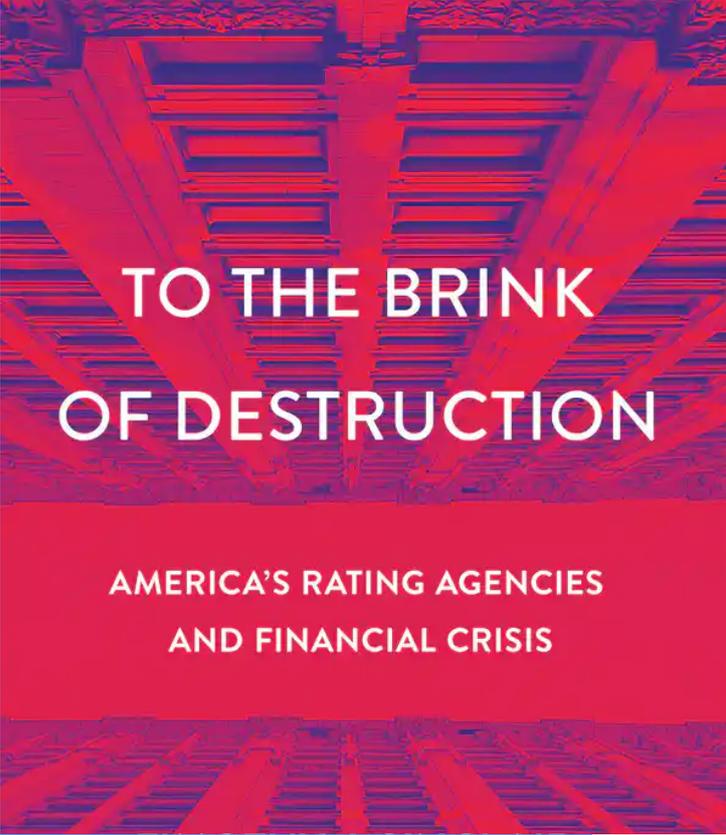
Scholars this month have been assessing even more flaws in the ESG Rating space; this time, the focus is on the lack of attention being given by the ESG Rating Agencies to the global supply chain and the ESG factors that can/will affect it. To read more of the analysis and the call for more analysis to be done by the majority of ESG rating agencies (not including EcoVadis, a supply chain-rating specialist), read [here](#).

INSTITUTIONAL INVESTORS COMPLAIN OF ESG RATING PROBLEMS

Institutional investors, and in particular pension funds, have said this month that they believe that their usage of ESG Rating Agencies will rise significantly in the coming years. However, there is a common consensus that the inherent issues that exist within the ESG Rating space at the moment will prove to be prohibitive, with the sentiment being that whilst the market will need the information provided by ESG Rating Agencies, the industry's offering really needs to be cleaned up if large investors are to use it systematically. You can read more about this [here](#).



NEW BOOK ON CREDIT RATING AGENCIES



TO THE BRINK OF DESTRUCTION

AMERICA'S RATING AGENCIES
AND FINANCIAL CRISIS

There was a really interesting book released this month by Timothy Sinclair, entitled 'To the Brink of Destruction: America's Rating Agencies and Financial Crisis', available from Cornell University Press [here](#). The book's blurb reads: To the Brink of Destruction exposes how America's rating agencies helped generate the global financial crisis of 2007 and beyond, surviving and thriving in the aftermath. Despite widespread scrutiny, rating agencies continued to operate on the same business model and wield extraordinary power, exerting extensive influence over public policy.

Timothy J. Sinclair brings the shadowy corners of this story to life by examining congressional testimony, showing how the wheels of accountability turned—and ultimately failed—during the crisis. He asks how and why the agencies risked their lucrative franchise by aligning so closely with a process of financial innovation that came undone during the crisis. What he finds is that key institutions, including the agencies, changed from being judges to being advocates years before the crisis, eliminating a vital safety valve meant to hinder financial excess.

Sinclair's well-researched investigation offers a clear, accessible explanation of structured finance and how it works. To the Brink of Destruction avoids tired accusations, instead providing novel insight into the role rating agencies played in the worst crisis of modern global capitalism.

Latest Publications/blogs on the Credit Rating World

LATEST ARTICLES



There have been a number of interesting academic articles/theses published recently. They include: 'Failure of IL&FS – A Classic Case of Professional Compromise of Rating Agencies – India's Experience' by Venkata Gogiseti, available [here](#); 'Mandatory disclosure by credit rating agencies and investment sensitivity to stock price: A managerial learning perspective' by Kim, Park, and Wilson, available [here](#); 'International Evidence on the Effects of a Local Presence by US Credit Rating Agencies, by Eliner, Machokoto, and Sikochi, available [here](#); 'Inscriptions of Resilience: Bond Ratings and the government of climate risk in Greater Miami, Florida' by Savannah Cox, available [here](#); and 'Buffering "Business as Usual" against Default through Credit Risk and Uncertainty Management' by Bartholomew Paudyn, available [here](#).

Notices

Next month, as part of the Croatan Institute's Croatan Conversation, Daniel Cash will join Gillian Marcelle and Chantal Naidoo for a discussion on all things ESG and ESG assessment, chaired by Bill Harrington. The details and registration details for the event on the 10th December, can be found [here](#).

**ESG ASSESSMENTS:
HELPFUL, HARMFUL, OR
IRRELEVANT?**

**CROATAN
CONVERSATIONS**

Bill Harrington
Croatan Institute

Daniel Cash
NYU Stern School
of Business

Gillian Marcelle
Resilience Capital
Ventures LLC

Chantal Naidoo
Rabia Transitions
Initiative

DECEMBER 10TH, 1:00 - 2:00PM ET

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](#)

Fitch are holding their Credit Outlook EMEA 2022 Conference in person, and online, on the 12th/13th January. Registration details can be found [here](#).

[Morningstar](#)

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

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

