Basel Iii Credit Rating Systems An Applied Guide To Quantitative And Qualitative Models Finance And Capital Markets Series

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?????????????.2,?????????????????????"212B38"?????????????????(IRB)"212B38"?????????????????????. In response to the rapidly changing financial markets and in order to create a fair competitive environment, the Basel Committee published in 1988, the Basel Capital Accord, which regulates international-type bank's capital adequacy ratios should be at least 8% of the standards to maintain adequate capital levels. To raise the risk sensitivity of the Agreement, and to enhance the practical applicability of operation, the Commission referred the proposed national banks and gradually amended the existing Basel Capital Accord to publish the Basel Capital Accord (II) in January 2001. The Basel Capital Accord (II) was implemented at the end of 2006. This thesis investigates if the implementation of the New Basel Capital Accord (II) improves bank risk management, affects financial ratios and credit quality of domestic banks, and effectively reduces the overall NPL Bank ratio. The conclusions of the thesis are as follows:1. The t test and descriptive statistics show that the financial structure, asset quality, and business growth of Taiwan Business Bank are improved after the implementation of the Basel Capital Accord (II). 2. The Basel Capital Accord (II) enhances the concept of bank risk management, and allows banks to establish their own internal credit rating system (IRB). Thus the bank's business activities and exposure can maintain an appropriate degree of sensitivity.

In the last decade rating-based models have become very popular in credit risk management. These systems use the rating of a company as the decisive variable to evaluate the default risk of a bond or loan. The popularity is due to the straightforwardness of the approach, and to the upcoming new capital accord (Basel II), which allows banks to base their capital requirements on internal as well as external rating systems. Because of this, sophisticated credit risk models are being developed or demanded by banks to assess the risk of their credit portfolio better by recognizing the different underlying sources of risk. As a consequence, not only default probabilities for certain rating categories but also the probabilities of moving from one rating state to another are important issues in such models for risk management and pricing. It is widely accepted that rating migrations and default probabilities show significant variations through time due to macroeconomics conditions or the business cycle. These changes in migration behavior may have a substantial impact on the value-at-risk (VAR) of a credit portfolio or the prices of credit derivatives such as collateralized debt obligations (D+CDOs). In Rating Based Modeling of Credit Risk the authors develop a much more sophisticated analysis of migration behavior. Their contribution of more sophisticated techniques to measure and forecast changes in migration behavior as well as determining adequate estimators for transition matrices is a major contribution to rating based credit modeling. Internal ratings-based systems are widely used in banks to calculate their value-at-risk (VAR) in order to determine their capital requirements for loan and bond portfolios under Basel II One aspect of these ratings systems is credit migrations, addressed in a systematic and comprehensive way for the first time in this book The book is based on in-depth work by Trueck and Rachev

The Consultative paper issued by the Basel Committee on Banking Supervision (Basel II) cites the failure of bankers to adequately stress test exposures as a major reason for bad loans. Sample quotes from this crucial document: * "Banks should take into consideration potential future changes in economic conditions when assessing individual credits and their credit portfolios, and should assess their credit risk exposures under stressful conditions." * "The recent disturbances in Asia and Russia illustrate how close linkages among emerging markets under stress conditions and previously undetected correlations between market and credit risks, as well as between those risks and liquidity risk, can produce widespread losses." * "Effective stress testing which takes account of business or product cycle effects is one approach to incorporating into credit decisions a fuller understanding of a borrower's credit risk." Written for professionals in financial services with responsibility for IT and risk measurement, management, and modeling, Dimitris Chorafas explains in clear language the testing methodology necessary for risk control to meet Basel II requirements. Stress testing is the core focus of the book, covering stress analysis and the use of scenarios, models, drills, benchmarking, backtesting, and post-mortems, creditworthiness, wrong way risk and statistical inference, probability of default, loss given default and exposure at default, stress testing expected losses, correlation coefficients, and unexpected losses, stress testing related to market discipline and control action, and pillars 2 and 3 of Basel II. * Written in clear, straightforward style with numerous practical examples * Based on five years of development and research * Focuses on stress probability of default, stress loss given default, stsress exposure at default

Global Credit Review is an annual publication that provides an overview of the most important developments in global credit markets and the regulatory landscape. The third volume provides some critical analysis, reviews the introduction of new regulations and also offers new insights to address the challenges ahead. The carefully selected chapters touch on current topics such as: the measurement of systemic risk, reserve requirements and its role in monetary policy, the application of the Basel II default definition by credit risk assessment systems, and changes in credit portfolio management, amongst others. Recent evolutions of the Risk Management Institute's Credit Research Initiative are also reported, including a comprehensive overview of the technical details on the implementation of the current RMI-CRI corporate default prediction model. With its distinctive focus on topics related to credit markets and credit risk, this is an invaluable publication for finance professionals, policy makers and academics with an interest in credit markets. Contents:Systemic Risk in Europe (Eric Jondeau and Michael Rockinger)Changes in the Ratings Game — An Update on Various Developments (RMI staff)Reserve Requirements as Window Guidance in China (Violaine Cousin)The Implementation of the Basel II Default Definition by Credit Risk Assessment Systems: An Analysis of Possible Aggregation Procedures (Markus Bingmer and Laura Auria)Can Credit-Scoring Models Effectively Predict Microloans Default? Statistical Evidence from the Tunisian Microfinance Bank (Ibtissem Baklouti and Abdelfettah Bouri)Stepping Up to the Liquidity Challenge: The Changing Role of Credit Portfolio Management (IACPM and KPMG)NUS-RMI Credit Research Initiative Technical Report (Version: 2013, Update 2b) (RMI staff) Readership: Finance professionals, policy makers and academics with an interest in credit markets. Keywords:Systemic Risk;Marginal Expected Shortfall;Multi-Factor Model;Volatility;Correlation;Regulations;Credit-Rating Alternatives;Recommendations;Lawsuits;Sovereign Ratings;Non-Performing Loans;Reserve Requirements;Monetary Policy;China;Banks;Asset Quality;Central Bank;Bank Regulation;Window Guidance;Basel II Default Definition;Materiality;Probability of Default;Aggregation of Default Information;Credit Scoring;Micro-Credit Default Risk;Logistic Regression;Tunisian Microfinance Bank;Credit Portfolio Management;Funding Liquidity Management;Asset and Liability Management;Capital;Liquidity;Liquidity Coverage RatioKey Features:A distinctive focus on credit risk related topics that are relevant for academics, policymakers and practitioners, linking rigorous theoretical and empirical research with clear practical implicationsAn annual update on global credit market dynamics and financial regulationsTouches on current topics such as the measurement of systemic risk, the role of reserve requirements in monetary policy, and changes in credit portfolio management

Basel III Credit Rating SystemsAn Applied Guide to Quantitative and Qualitative ModelsPalgrave Macmillan

This book analyses the connections between the banking industry in Europe and the companies it finances. Ferretti specifically studies how these bonds have evolved over time and questions whether now is the time for a change in the relationship’s dynamics. Chapters discuss the role of bank lending in firms’ financing during the recent financial crisis, as well as issues in credit risk management. The discussion also examines regulatory requirements impacting banks and firms (Basel III) and how they intersect with banks’ internal purposes. Moreover, the book explores how the financial crisis has impacted the relationship between banks and businesses, and seeks to identify the strengths and weaknesses inherent to it. Through this timely discussion, Ferretti looks to the future of the relationship between banks and non-financial organizations to see how they can be revitalised, adapted and reimagined in a post-crisis economy.

Provides the necessary business knowledge for IT professionals, who work in the global investment banking industry.The chapters in the book containan overview of the global investment banking industry, the business environment in which global investment banks operate in;Business processes in investment banking and the impact of the recent credit crisis on the industry.Also included are profiles of common systems used in the indsutry and IT projects executed by global investment banks.The future of the industry is decribed in the concluding chapter of this book."Business Knowledge for IT in Global Investment Banking " is a n invaluable handbook for IT professionals as well as business professionals. It is also useful for both undergraduate and graduate students in Information Technology - related degree programmes. This is another publication in the "Bizle Professional Series."

New developments in measuring, evaluating and managing credit risk are discussed in this volume. Addressing both practitioners in the banking sector and resesearch institutions, the book provides a manifold view on one of the most-discussed topics in finance. Among the subjects treated are important issues, such as: the consequences of the new Basel Capital Accord (Basel II), different applications of credit risk models, and new methodologies in rating and measuring credit portfolio risk. The volume provides an overview of recent developments as well as future trends: a state-of-the-art compendium in the area of credit risk.

Introducing the fundamentals of retail credit risk management, this book provides a broad and applied investigation of the related modeling theory and methods, and explores the interconnections of risk management, by focusing on retail and the constant reference to the implications of the financial crisis for credit risk management.

The estimation and the validation of the Basel II risk parameters PD (default probability), LGD (loss given fault), and EAD (exposure at default) is an important problem in banking practice. These parameters are used on the one hand as inputs to credit portfolio models and in loan pricing frameworks, on the other to compute regulatory capital according to the new Basel rules. This book covers the state-of-the-art in designing and validating rating systems and default probability estimations. Furthermore, it presents techniques to estimate LGD and EAD and includes a chapter on stress testing of the Basel II risk parameters. The second edition is extended by three chapters explaining how the Basel II risk parameters can be used for building a framework for risk-adjusted pricing and risk management of loans.

The objective of this paper is to provide an overview of the changes in the calculation of minimum regulatory capital requirements for credit risk that have been drafted by the Basel Committee on Banking Supervision (Basel II). Even though the revised credit capital rules represent a dramatic change compared to Basel I, it is shown that Basel II merely seeks to codify (albeit incompletely) existing good practices in bank risk measurement. However, its effective implementation in many developing countries is hindered by fundamental weaknesses in financial infrastructure that will need to be addressed as a priority.

Basel II is a global regulation, and financial institutions must prove minimum compliance by 2008 The authors are highly sought-after speakers and among the world’s most recognized authorities on Basel II implementation Accompanying CD-ROM includes spreadsheet templates that will assist corporations as they implement Basel II

This is a sample chapter from Basel II Implementation, an invaluable guide that puts a potent combination of theory and real-world practice at your fingertips. Written by two of the most globally recognized and sought-after thought leaders in Basel II implementation, this how-to book maps out, step-by-step, implementable solutions that are both academically credible and practical, making them defendable to regulators and executable within the constraints of data, resources, and time.

This book is a complimentary follow-on book to Operational Risk Control with Basel II. While the previous book focuses on operational risk, Economic Capital Allocation provides an overview of credit risk within the context of the Basel II accords. The book provides: * comprehensive coverage of the evolution of the banking industry with Basel II in mind * extensive information on the capital requirements for bank liquidity and solvency * coverage of the new rules as laid down by the supervisory authorities of the Group of Ten industrialized nations * key information on the technical requirements for credit institutions such as: new credit rating scales, modeling of credit risk, control of operational risks, and, novel ways and means for the management of exposure to Credit Risk * Basel II accords must be implemented by 2006 and require 2 years preparation for proper implementation * Author at the forefront in the development of the Basel II Capital Adequacy Accord * Based on intensive research in the US, UK and continental Europe

A critical problem in the practice of banking risk assessment is the estimation and validation of the Basel II risk parameters PD (default probability), LGD (loss given default), and EAD (exposure at default). This book presents the state-of-the-art in designing and validating rating systems and default probability estimations, and outlines techniques to estimate LGD and EAD. Also included is a chapter on stress testing of the Basel II risk parameters.

This book introduces to basic and advanced methods for credit risk management. It covers classical debt instruments and modern financial markets products. The author describes not only standard rating and scoring methods like Classification Trees or Logistic Regression, but also less known models that are subject of ongoing research, like e.g. Support Vector Machines, Neural Networks, or Fuzzy Inference Systems. The book also illustrates financial and commodity markets and analyzes the principles of advanced credit risk modeling techniques and credit derivatives pricing methods. Particular attention is given to the challenges of counterparty risk management, Credit Valuation Adjustment (CVA) and the related regulatory Basel III requirements. As a conclusion, the book provides the reader with all the essential aspects of classical and modern credit risk management and modeling.

Now in its second edition, this bestselling handbook has been fully updated and expanded in light of important changes to the new Basel II Accord such as: the asset classes required under Pillar 1, the new required elements for capital adequacy and the minimum capital requirements for securitization and operational risk, credit risk mitigation, supervisory review and market discipline.

The Banker's Handbook on Credit Risk shows you how to comply with Basel II regulations on credit risk step by step, building on the basics in credit risk up to advanced credit risk methodologies. This advanced credit/risk management book takes a "new tools" approach to Basel II implementation. The hands-on applications covered in this book are vast, including areas of Basel II banking risk requirements (credit risk, credit spreads, default risk, value at risk, market risk, and so forth) and financial analysis (exotic options and valuation), to risk analysis (stochastic forecasting, risk-based Monte Carlo simulation, portfolio optimization) and real options analysis (strategic options and decision analysis). This book is targeted at banking practitioners and financial analysts who require the algorithms, examples, models, and insights in solving more advanced and even esoteric problems. The book comes complete with a DVD filled with sample modeling videos, case studies, and software applications to help the reader get started immediately. The various trial software applications included allows the reader to quickly access the approximately 670 modeling functions, 250 analytical model templates, and powerful risk-based simulation software to help in the understanding and learning of the concepts covered in the book, and also to use the embedded functions and algorithms in their own models. In addition, the reader can get started quickly in running risk-based Monte Carlo simulations, run advanced forecasting methods, and perform optimization on a myriad of situations, as well as structure and solve customized real options and financial options problems. * Only book to show bankers step by step how to comply with Basel II regulations on credit risk * Over 150 hands-on software applications included on the DVD accompanying the book, including sample modeling videos * Provides all the latest quantitative tools

The International Banking System is an indispensable tool for financial and banking experts around the world. It provides original insight as to the regulatory and legal challenges facing central key banks in the monitoring of international banking operations. Through its detailed analysis of core banking operations, The International Banking System provides professionals, as well as students involved in the banking industry (regulators, auditors), the relevant details, approaches, and answers to complex financial issues.

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

The global crisis revealed that credit rating agencies (CRAs) are capable of bringing about potential distortions in the financial sector, thereby resulting in a reduction in market confidence which, in turn, influences negotiations and expectations. CRAs need to be held accountable for lack of transparency and inaccurate ratings, however the existing regulatory framework does not secure adequate investor protection. This book provides a new and important contribution to research in the area, at a crucial time in the debate around financial regulation and investment regimes.

The recent crisis in financial markets has seen a gradual erosion of the boundaries of asset classes previously regarded as risk-free. We have gone from a world mostly free of default risk to one where credit risk is largely reflected in equity prices. Traditional valuation methods now need to be integrated to take into account a scenario in which expectations of growth are considerably reduced, and credit risk is increased to levels previously unheard of. But as the majority of private companies are sub-investment grade, Valuing Private Companies: How Credit Risk Reshaped Equity Markets and Corporate Finance Valuation Tools sets out an innovative new method for estimating private companies' cost of equity based on a Fixed Income Approach (FIA). The book begins by introducing the changing landscape of financial markets post crisis, discussing the notion of 'risk free' asset classes and how equity valuation methods are changing in the light of credit risk. Oricchio then goes on to illustrate the limitations of traditional methods for estimating the economic value of non-listed companies, demonstrating that methods such as the Capital Asset Pricing Model (CAPM), which are market-based, cannot effectively capture credit risk in sub-investment grade companies. The author advocates the use of a new model to estimate the cost of equity 6 the Integrated Pricing Model (IPM). This new model combines CAPM with a second method based on fixed income type logic, known as the Fixed Income Approach (FIA).The second part of the book then applies these new IPM equity valuations, based on corporate rating models for private companies, to a range of country specific cases covering the USA, Japan, China, Russia, India and Italy. In addition to the book's theoretical insights, illustrating in great detail the relationship between default risk and equity risk premium, readers will benefit from the practical experience the author has accumulated as a risk manager within major banking groups such as UniCredit Group, Capitalia SpA, and Banca di Roma SpA.

"The market turmoil and the new Basel III capital requirements are reshaping the financial competitive landscape. More than ever, banking competition is based on the ability to assess, to price and to manage the cost of credit risk. Bankers are increasingly called to manage a process of analysis of the customer in a more structured way. This book is a comprehensive guide to quantitative and qualitative credit rating models and covers all loan portfolios (corporate, retail, bank, sovereign and specialized lending). The credit rating models are illustrated in great detail and are based on the best practices in use in large international banking groups. The book also contains pricing tools for liquid and non-liquid markets and is one of the first books on credit risk management published since the crisis."--Book jacket.

This book explores the role of the rating system in creditworthiness assessment, looking into its current status, strengths and weaknesses and possible evolution in the light of Basel 3 and the Global Economic Crisis.

The aims of this paper are two fold : first, weattempt to express the threshold of a single "A" rating as issued by major international rating agencies in terms of annualised probabilities of default. We use data from Standard & Poor'sand Moody's publicly available rating histories to construct confidence intervals for the level of probability of default to be associated withthe single "A" rating. The focus on the single "A" rating level is not accidental, as this is the credit quality level at which the Eurosystem considers financial assets to be eligible collateral for its monetary policy operations. The second aim is to review various existing validation models for the probability of default which enable the analyst to check the ability ofcredit assessment systems to forecast future default events. Within this context the paper proposes a simple mechanism for the comparison of the performance of major rating agencies and that of other credit assessment systems, such as the internal ratings-based systems of commercial banks under the Basel II regime. This is done to provide a simple validation yard stick to help in the monitoring of the performance of the different credit assessment systems participating in the assessment of eligible collateral underlying Eurosystem monetary policy operations. Contrary to the widely used confidence interval approach, our proposal, based on an interpretation of P values as frequencies, guarantees a convergence to an exante fixed probability of default (PD) value. Given the general characteristics of the problem considered, we consider this simple mechanism to also be applicable in other contexts.

The 2008 global financial crisis has illustrated the need for tighter regulations and management of banking institutions, approaching banking and money lending in a more intelligent, directed fashion. Emerging Trends in Smart Banking: Risk Management Under Basel II and III discusses some of the latest developments in banking regulations and safeguards to ensure the mitigation of risk and economic collapse. This book is a critical reference in the exploration of business frameworks to identify areas of strength and potential weaknesses, insight that will be of use to business leaders, professionals in the banking industry, and researchers and scholars in all aspects of business and accounting.

"Majnoni, Miller, and Powell propose an integrated approach to minimum bank capital and loan loss reserves regulation. They break new ground in two main areas. First, the authors provide an explicit measurement of the credit loss distribution for a sample of emerging countries providing a benchmark for discussing the appropriate calibration of new regulatory capital and loan loss provision requirements for non-G10 countries. Second, on normative grounds, they propose a simplified version of the "internal rating based" (IRB) approach as a transition tool that, while retaining a risk-based definition of solvency ratios, implies reduced supervisory monitoring costs and could therefore be of interest to emerging countries where supervisory resources are particularly scarce. This paper--a product of the Finance Cluster Sector Unit, Latin America and the Caribbean Region--is part of a larger effort in the region to analyze the effects of bank capital regulation"--World Bank web site.

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. [...]

Seminar paper from the year 2017 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 81, University of Westminster, language: English, abstract: In 2010, the Basel Committee on Banking Supervision (BCBS) initiated a raft of reforms to the banking regulation, dubbed Basel III, introducing new liquidity and leverage ratios and strengthening the banks’ capital requirements ratio with an aim of improving their ability to absorb shocks whilst refining risk management approaches and tightening the banks’ disclosures requirements substantially. This article examines key reforms that were brought by Basel III vis-à-vis the propositions of Basel I and II in reducing bank failures and risk levels using emerging markets (e.g. Africa) as a case study.

This paper is about the importance of the information in Public Credit Registries (PCRs) for supporting and improving banking sector regulation and supervision, particularly in the light of the new approach embodied in Basel III. Against the backdrop of the financial crisis and the existence of information data gaps, the importance of complete, accurate and timely credit information in the financial system is evident. Both in normal times and during crises, authorities need a device that allows them to look at the universe of credits in a detailed and readily way. And more importantly, they need to develop tools that exploit as much as possible the information therein contained. PCR databases contain individual credit information on borrowers and their credits which makes it possible to implement advanced techniques that measure banks' credit risk exposure. It allows optimizing the prudential regulation ensuring that provisioning and capital requirements are properly calibrated to cover expected and unexpected losses respectively. It also permits validating banks' internal rating systems, performing stress tests and informing macroprudential surveillance. In this respect, it is envisioned that the existence of a PCR will be a key factor to enhance the supervision and regulation of the financial system. Furthermore, the extent, accuracy and availability of the information collected by the authorities will determine the usefulness of the PCR as part of their toolkit to monitor the potential vulnerabilities not only on a microprudential level, but also on a macroprudential one.

Risk Management and Shareholders' Value in Banking provides an integrated framework for risk measurement, capital management and value creation in banks covering interest rate risk; market risk; credit risk; operational risk; capital regulation; capital management; and value creation. Updated to include coverage of the most recent developments in banking regulation, including comprehensive coverage of the new Basel III regulatory framework the book is structured in six parts. Part I covers the measurement and management of the interest rate risk and liquidity risk on all assets and liabilities of a banking institution. This includes a discussion of gapping models, presented critically through numerical examples and solutions, internal transfer rates, gapping techniques, liquidity risk management. Part II presents portfolio models for market risks, including the “variance/covariance” approach, Monte Carlo / historical simulations, backtesting, alternative risk measures (e.g. expected shortfall) and volatility estimation techniques. Part III addresses credit risk measurement, first on a stand-alone basis, then at a portfolio level; it also includes chapters on scoring models, rating systems, recovery risk, counterparty risk for OTC derivatives, and practical applications of credit risk models. Part IV deals with operational risk before part V goes on to illustrate the main pieces of regulation on bank capital issued by the Basel Committee, the main focus being on Basel 2 (insofar it has not been changed by the latest regulatory wave) and Basel 3. Part VI presents the link between risk and capital in all its implications, and provides the reader with the technical models needed to allocate capital to risk-taking units, set risk-adjusted profitability targets, and optimize the amount and composition of bank capital. By bringing together the core aspects of risk management in banking - models and algorithms, regulation, process engineering and management, and strategic planning – the book provides a unique and consistent framework showing how financial risks can be understood, measured, managed and covered with capital. The book is accompanied by a website which includes a series of excel files with detailed explanations of all the numerical examples shown in the book, as well as solutions to the end of chapter exercises.

Essay from the year 2008 in the subject Business economics - Investment and Finance, grade: 2,2, European Business School - International University Schloß Reichartshausen Oestrich-Winkel, course: Introduction to Investment Banking, language: English, abstract: “There are two superpowers in the world [...] the United States and Moody’s Bond Rating Service” – Thomas L. Friedman, NY Times The above statement by Thomas L. Friedman accentuates the importance of credit rating agencies (CRAs) in modern financial markets. As the past months have shown, Friedman’s statement has held especially true for the role of CRAs in the structured finance market, where CRAs are currently being made responsible for playing an integral role in the emergence of one of the biggest financial crises of mankind: the subprime crisis. The role and the importance of CRAs in the structured finance market is the central topic of the following paper. To fully understand the impact of this issue on the worldwide financial markets, it is interesting to shed some light onto the dimensions of the structured finance market. The market is of considerable size given that outstanding structured finance securities in the United States amounted to 7.3 trillion US dollars in 2005 (Nomura, 2005) and have now grown to 9 trillion US dollars, which is more than two thirds of the United States GDP of 13.1 trillion US dollars in 2007 (U.S. Bureau of Economic Analysis, BEA, 2007). More-over, these outstanding structured finance securities represent more than 30% of the total outstandings in the U.S. bond markets (Nomura, 2005). As these figure reveal, it is not surprising that complications in the core of the huge market of structured finance could potentially lead to a major destabilisation of the entire worldwide financial markets; a risk that was obviously underestimated for a long time and finally lead to the genesis of the sub-prime crisis. The role of CRAs in the structured finance market has long been debated and the current financial turmoil has brought about concerns regarding such questions as to whether these credit ratings were based on wrong information and faulty or dated models, thereby questioning the significance of the system of CRAs. To enable a better insight into the functioning of CRAs and a justified testimony as to their performance, the following paper will dig deeply into the ambiguity of the rating process and the role of CRAs in structured finance.

The First Basel Capital Accord, implemented in 1988, was aimed at ensuring the soundness and stability of the international banking system. The new accord, Basel II, which is planned for implementation in December 2006, is intended to strengthen the framework for dealing with credit risk. This book provides an informative analysis of what Basel II means for the small and medium-sized enterprize (SME) sector in Europe and its impact on its credit financing conditions. It also presents a detailed analysis of how banks formulate an internal rating system and illustrates how this system works in practice. Finally, it concludes with the key measures that should be taken by banks, SMEs, and public policymakers to improve financing in the new rating culture.

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’).