

# **CRA(Credit Rating Agencies)**

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## **Rating**

**Rating is an opinion regarding securities expressed in standard symbols/any other standardised form assigned by a credit rating agency and used by the issuer of such securities.**

## **Credit Rating**

**Credit rating is the symbolic indicator of the current opinion of the rating agency regarding the relative ability of the issuer of the financial (debt) instrument to meet the (debt) service obligations as and when they arise.**

# *Regulation of credit rating agencies*

Credit rating agencies are regulated by SEBI. The following regulatory measures are taken:

- Registration of credit rating agencies(CRA)

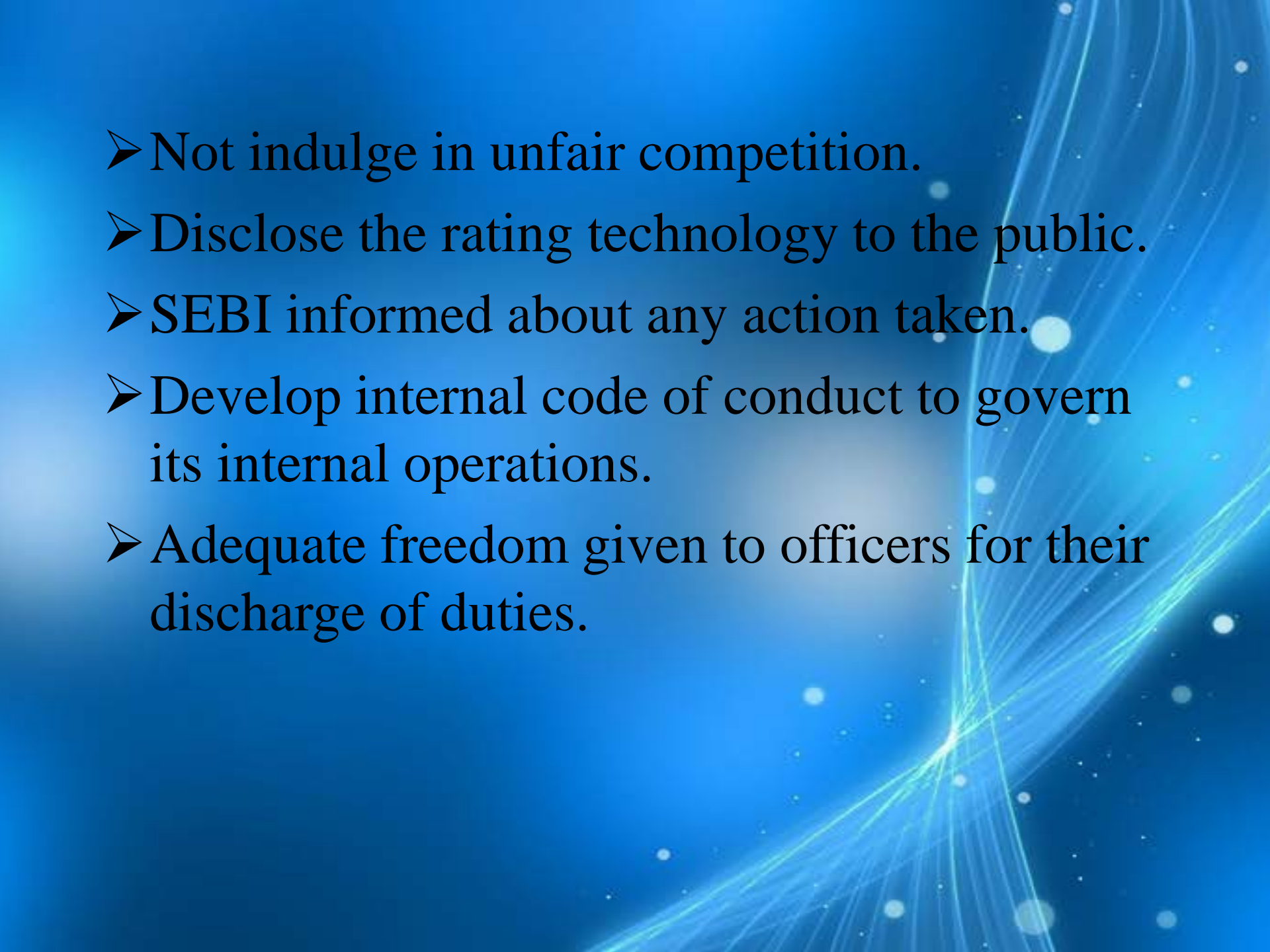
It is mandatory for all agencies. A credit rating agency is a body corporate engaged in the business of rating of securities offered to public.



# *General obligations*

The following code of conduct must be followed :

- The credit rating agency must protect the interest of investors.
- Observe high standards of integrity and fairness in the conduct of its business.
- Obligations fulfilled in an ethical way.
- Exercise due diligence in the rating process.
- Have consistent and international rating standards.

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- Not indulge in unfair competition.
  - Disclose the rating technology to the public.
  - SEBI informed about any action taken.
  - Develop internal code of conduct to govern its internal operations.
  - Adequate freedom given to officers for their discharge of duties.

# *Benefits for Investors:*

- Investors can choose investments based on credit rating of the investing firm.
- Investors can rely on the credit rating since the credit rating is done by experts.
- Investors can make a comparative study of different credit securities and choose the best instrument.

- It enables investors to have a diversified investment.
- It gives an opportunity for the investors to swap from their less profitable investment to more profitable investment with the help of credit rating.
- Investors enjoy liquidity, profitability and safety of their investment.



## *Benefits for companies:*

- They are able to raise funds easily.
- Credit rating gives better security for the companies.
- It enables the companies to raise more funds.
- Better placed firms are easily recognized by public.
- Highly rated firms provided better liquidity for their securities.

## ***Benefits for regulating authority:***

- General economic condition can be analysed by regulating authorities from the credit rating of various companies.
- SEBI and RBI are able to control the firms through credit rating process.
- Credit rating gives authority and accountability to the regulating authority.
- Due to the restrictions in credit rating the financial soundness of the companies can be maintained.

# ***Benefits to Public:***

- Unknown company cannot cheat the public.
- Credit rating helps to channelize the savings for productive purpose.
- Since legal actions are taken in the absence of fulfilling the obligations it creates confidence in the minds of public.
- Indians settled in abroad will be attracted to invest in our companies due to the credit rating.

Thank You