

Rukmini Devi Institute of Advanced Studies
Madhuban Chowk, Rohini, Delhi-110085

(Approved By AICTE & Affiliated With GGSIP University)

DOSSIER

On

Guest Lecture

On

“Credit Rating Agencies and Financial Crisis”

On

January 16, 2013





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Ms. Upasana Diwan
(Chairperson, Literary Club)

Prof. Col. (Retd.) Mahander Singh

Director General, RDIAS



FORM A

Proposal:

- **Name of the event to be organized:** Guest Lecture on Credit Rating Agencies and the Financial Crisis

- **Date:** 16th January, 2013

- **Time:** 11:30AM-01:30 PM

- **Venue:** Lecture Theatre, RDIAS

- **Motivation for the activity:** This lecture was conducted with the motive to make the students understand role of Financial Services in Business organizations and to give an insight into the strategic, regulatory, operating and managerial issues concerning select financial services.

- **Organized by:** MBA Department



FORM B

Part 1

Aim of the event: The aim of the event was to give an exposure to the students about the present status and development that are taking place in the financial services sector & also that how this sector could help them to understand the reasons for financial crisis and what all is the contribution by the credit rating agencies in this regard.

Part 2

Abstract:

The session was initiated by Prof. Madhu Vij, where madam briefed about how to “develop an integrated knowledge of the functional areas of financial service industry in the real world situation”.

The session was conducted with three broad divisions as follows:

- The focus was on how the crisis are still being felt globally with no sign of abatement, is largely traceable to the residential real estate mortgage market.
- The role of Security and exchange commission was discussed. The significant aspects of the rating process were also conferred in which example of Coal India was stated.
- The Adverse Business Models were also presented where in role of political and economic stability was given.

Initially, a brief overview of Credit Rating Agencies was given in which madam stated that Credit rating agencies are private companies that evaluate large debtors and the financial instruments those debtors issue.



There are Three U.S. firms that dominate the CRA market:

- Standard and Poor's (S&P)
- Moody's Corp.
- Fitch Ratings, a British Firm, is the third-most prominent. Together, these three firms hold 95 percent of the ratings market.

In addition to the three big firms, approximately 100 other CRAs specialize in rating various instruments, industries or national markets.

The speaker highlighted on the fact about how the global credit crisis that began in 2007 and peaked in 2008 and 2009, with the economic aftershocks but did not impact the Indian Economy. Issues such as CRA are not auditors, Credit rating changes with time, Regulation of CRA and Raters were conversed.

Then madam discussed the role of Securities Exchange Commission wherein she explained that in an initial public offering, the process of filing necessary paperwork with the SEC can be time-consuming and complicated. First, a registration for must be filed and declared effective. Despite the fact that the registration becomes public knowledge immediately, the company may not attempt to sell shares until the registration is declared effective. Registration documents include a prospectus to be given to all investors, as well as a section that is made available on the SEC website but which does not have to be provided to investors. A company's underwriter will prepare and file these documents with the help of accountants and lawyers.

For a company that has gone public through an IPO, SEC requirements don't end with the issuance of shares. Continued disclosures must be made concerning a variety of topics, including details of operations, key employees and shareholders, major stock transactions, and general health of the company. Because these disclosures are so numerous and frequent, there is a substantial cost involved that should not be overlooked when making the decision to go public.



Madam also discussed the credit rating process for financial institutions as it refers to the credit rating processes and analysis of financial institutions performed by various credit rating agencies. According to the credit rating of the financial institutions, the strength of a particular financial institution can be judged. At present, there are more than 100 credit rating agencies all over the world.

There are a large number of credit rating agencies all over the world that carry out credit rating functions for financial institutions. A credit rating agency is basically an organization, which allots credit ratings for financial institutions or issuers of various types of debt obligations like bonds and debentures. The financial institutions for which the credit rating is done usually include the following:

- Companies
- Non profit organizations
- Investment banks
- Federal government agencies
- State government agencies

The speaker further continued the discussion by explaining that these entities issue debt securities that are traded on the secondary market. They do it for various funding purposes. With the help of a credit rating, the creditworthiness of a financial institution can be measured. It also analyzes the ability of a financial institution regarding the repayment of loans that it has taken, and also the amount of interest that is accrued. The credit rating of a financial institution also influences the interest rates applicable to the bonds and debentures issued by those institutions. If the credit rating of a financial services provider or bond issuer is high, then the amount of interest paid to the investors is low because they consider the investment to be less risky. On the other hand, if the credit rating of a financial services provider or bond issuer is low, then the amount of interest paid to the investors is high because the investors consider the investment to be more risky and the issuer tries to compensate the degree of risk by paying high rate of interest.



Part 3

Conclusion: In the concluding stage of the session the factors of success of CRA were given and a new beginning of future with the help of CRA was focused. A CRA's only product is information, and therefore investors must perceive that information as timely, unbiased, and accurate. The ongoing crisis has proven that ratings can be inaccurate, untimely, and affected by CRA conflicts of interest.

Lecture Moments



Facilitation to Madam by DG Sir...!



Welcome Speech by students..!!



Addressing the gathering..!!



Actively listening to the session..!!