Report On

Argus Credit Rating Services Ltd: A Comprehensive Study on the Effects of the Current Situation of Credit Rating Industry on ACRSL

By

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An internship report submitted to the BRAC Business School in partial fulfillment of the requirements for the degree of
Bachelors in Business Administration

BRAC Business School
BRAC University
January, 2020

Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

Suraiya Chowdhury
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Supervisor's Full Name & Signature:

Saif Hossain
Assistant Professor &
Director (BBA Program)
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Letter of Transmittal

Saif Hossain
Assistant Professor &
Director (BBA Program)
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of Internship report on “Argus Credit Rating Services Ltd: A Comprehensive Study on the Effects of the Current Situation of the Credit Rating Industry on ACRSL”

Dear Sir,

I am immensely gratified to submit my internship report as an important part for my completion of the BBA program in BRAC. This report emphasizes on the effects of current situation of credit rating industry on ACRSL.

I have done my utmost to provide all the necessary details regarding my topic and to follow proper guidelines while completion of this report. I have endeavored to make this report as precise as possible and I hope to receive your kind consideration in terms of any unintentional mistake.

Sincerely yours,

____

Suraiya Chowdhury
Student ID: 15104027
BRAC Business School
BRAC University
Date: January 6, 2020

Non-Disclosure Agreement

This agreement is between ACRSL and the intern for the purpose of receiving valuable and confidential information of Argus Credit Rating Services Ltd to enable the intern to fulfill his/her internship report. By signing this non-disclosure agreement the intern agrees to follow:

- I acknowledge that during my internship, I might get disclosure to or get access to some valuable technical information, trade secrets and confidential information. I will keep those confidential information or trade secrets whether or not it is prepared by me or not and will not disclose those information without the consent of ACRSL.
- I will return all the files and personal properties belonging to ACRSL after completion of my report writing.
- I will submit a draft copy of my internship report to ACRSL.
- After submitting a draft copy to ACRSL, I will take the review of my on-site supervisor and if my supervisor identifies any data as too sensitive, I shall disguise those data from the report.

I have read all the clauses of this agreement carefully and agree that all these clauses are fair and required for maintaining the confidentiality of ACRSL. With my signature I agree to all the terms mentioned above.

Intern's Name_____________________________

Signature_____________________________________

Acknowledgement

At first, I want to express my utmost gratitude to almighty ALLAH to keep me in a sound health during my completion of this report. I also want to confess my immense appreciation towards all the individuals who has contributed in finishing this report.

I am extremely thankful to my academic supervisor Saif Hossain who was always ready to provide his support and guidance whenever necessary.

I am greatly thankful to ARGUS Credit Rating Services Ltd for presenting me with the great opportunity to work with them as an "Intern". I confess my sincere gratitude to my on-site supervisor "Syfullah Mia", Assistant Vice President of ACRSL, for guiding me throughout my internship journey. Apart from my on-site supervisor, I also feel grateful towards Mr Tamim Marzan Huda, Chief Operating Officer of ACRSL who has provided me with many important and relevant information regarding my topic which has helped me to make this report more informative and up-to-date.

At last, I would like to confess my heartfelt gratitude to BRAC Business School to provide me with all the theoretical knowledge and guidance.

Executive Summary

Argus Credit Rating and Services Limited is the fifth credit rating agency to enter the credit rating industry of Bangladesh. Argus is a joint-venture with Singapore based credit rating agency DP Information Group which has contributed in the development of credit rating sector in countries like Indonesia, China and Philippines. In this paper, I have presented an overview on ACRSL where I have described their history, mission, vision, the types of credit ratings done by ACRSL and their overall rating procedure. The main focus of this report is the industry analysis through which I have examined the external and internal factors that affect the business of ACRSL. I have also identified the challenges of the credit rating industry and the strategies adopted by Argus to fight back those challenges. From the industry analysis, I have found out that the credit rating industry now resides between the maturity and decline stage. The strong rivalry among the existing credit rating agencies and the threat of "IRBA" in near future is pushing the credit rating industry to the decline stage. But the increase of "SME rating" and increase of "Instrument rating" can open new opportunities for credit rating agencies like ACRSL. Another biggest challenge for the credit rating agencies in Bangladesh is the lack of monitoring in the financial sector by the regulators. Due to lack of monitoring by the regulators, some credit rating agencies break the "ethical code of conduct" and neglect the guideline and rules by the regulatory bodies. Also due to the lack of governance some banks uses "expired credit rating" which affects the business of credit rating agencies. To handle this issue, Bangladesh Bank has proposed to "shut down" the credit rating agencies that doesn't abide by the guidelines of BB and BSEC and has also issued new guidelines to solve the issues of the Banking sector.

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List of Acronyms

ACRSL	Argus Credit Rating Services Ltd
ACER	Argus Credit and Equity Research
ARCAT	Argus Research & Consulting for Advanced Technology
BB	Bangladesh Bank
BRPD	Bangladesh Regulation & Policy Department
BSEC	Bangladesh Securities & Exchange Commission
CRA	Credit Rating Agency
CRC	Credit Rating Company Rules
CRAB	Credit Rating Agency Limited
CRISL	Credit Rating Information Services Ltd
DCRA	Domestic Credit Rating Agency
EBL	Eastern Bank Limited
ECAI	External Credit Assessment Institutions
FI	Financial Institution
IDRA	Insurance Development and Regulatory Authority
IFIC	The International Finance Investment and Commerce
IOSCO	The International Organization of Securities Commission
IRBA	Internal Rating Based Approach

IRC	Internal Rating Committee
JBL	Janata Bank Limited
NBFI	Non-Bank Financial Institution
PCL	Pasha Capital Ltd.
SME	Small and Medium Enterprise
S & P	Standard and Poor’s
TBL	Trust Bank Limited

Chapter 1: Introduction

Internship program is an obligation for completing our BBA program which provides us with the opportunity to get exposure of the real world work environment. In today's competitive and fast-paced world, only theoretical knowledge is not enough because to gain expertise in our respective field, practical knowledge plays a vital role. As BRAC University focuses on providing excellence to its students, it recognizes the importance of practical experience. To gain this practical experience, I have done my internship in ARGUS Credit Rating Services Ltd.

In this report, I have discussed the effect of current situation of credit rating industry on ACRSL. Besides, I have also discussed about the entire operational process of ARGUS Credit Rating and Services Ltd.

1.1. Origin of the report

This internship report is originated as the requisite for completing my Bachelors of Business Administration program at BRAC University which will be submitted to my academic supervisor Mr. Saif Hossain.

I have gone to Argus Credit Rating Services Ltd to get a real life experience from 1 September 2019 to 30 November 2019 to complete my internship project.

1.2 Objective of the Report:

- To examine the current situation of the credit rating industry and to show its effect on ACRSL

- To analyze the challenges faced by the credit rating industry and to find out how ACRSL fought back against those challenges

- To gain knowledge on ACRSL and their rating procedure

1.3 Scope of the report

The theoretical knowledge that we obtain in our University life has little to no use if we can't apply it in the practical world. Only through the practical experience, we will be able to reap the benefits of our theoretical knowledge. The internship program give us a chance to gain real world experience by strengthening our base of practical knowledge and ensures the full application of our theoretical knowledge.

1.4 Methodology of the Report

The methodology applied in this report is exploratory in nature. Both the primary and secondary source has been used for collecting all the data:

1.4.1 Primary Data Collection:

The primary data is collected from

- Interviewing the Chief Operating Officer of ACRSL
- Shared practical knowledge of the Assistant Vice president and financial analysts
- Observing the work procedures of ACRSL
- Books, brochure, files, reports and other related documents provided by the company

1.4.2 Secondary Data Collection:

A significant amount of data has been retrieved from the secondary source:

- Published reports and articles from online journals and newspapers
- Company website
- Website of competitors
- Internet

1.4.3 Limitations:

I have faced many obstacles and problems while preparing this internship report. One of the major constraint was data confidentiality which prevented me from collecting some latest data. ACRSL policies do not give access to some sensitive information to maintain their confidentiality which created a problem in the evaluation of my report. Also as I had only three months to prepare this report, I had to face time limitations. Also lack of sufficient data from previous years in an organized manner also created obstacles in collection of the data.

Chapter 2

Literature Review:

Credit risk is the oldest form of risk in the financial market (Caouettee et al, 1998). We can define credit risk as “the risk of default or of reductions in market value caused by changes in the credit quality of issuers or counterparts” (Duffie & Singleton, 2003, p.4). The assessment of this credit risk is called the credit rating which originated in 1849 when a man named Henry Varnum Poor started publishing regular updates on railroad property, their assets, liabilities and equity. After gaining immense popularity, Poor and his son decided to start their own publication in 1865 named “Poor’s Manual”. Similarly as poor and his son, another company named Jhon Moody and Company started publishing Moody’s Manual in 1900. Following the Poor’s and Moody’s, Standard Statistics was established in 1906. In 1924, a man called Fitch introduced the basis of credit rating, the AAA through D rating system which is used till date. The consolidation of Poor’s Publishing Company with Standard Statistics in 1941 formed a new company named Standard and Poor’s corporation. Since their establishment till now these three companies- Moody’s investor service, Standard & Poor’s, and Fitch has remained as major players in the credit rating industry and are the central of global credit rating.

Though the history of the credit rating is almost 200 years old but the history of credit rating in Bangladesh is not that old. The journey of credit rating in Bangladesh started in 2002, with the establishment of Credit Rating Information and Services Limited (CRISL). After two years, in 2004, the second credit rating agency was established named Credit Rating Agency of Bangladesh Limited (CRAB). In 2010, two more credit rating agency were established intensifying the competition in the credit rating industry. Emerging Credit Rating Ltd and National Credit Rating Ltd both started their operation in 2010. In 2011, ARGUS Credit Rating Services Ltd went into operation and the next year three more credit rating agencies, The

Bangladesh Rating Agency Limited, Alpha Credit Rating Limited WASO Credit rating company (BD) Limited started their operation.

Chapter 3: Credit Rating

3.1. Definition of Credit Rating:

The term credit rating refers to the opinion of a credit agency on the credit worthiness of an individual, entity, government or an instrument. The credit rating is expressed through alphabetical letters such as AAA, A+, BBB etc. Normally the credit score is negatively correlated to default risk which indicates that the increase in credit score decreases the default risk. Credit rating agencies emphasizes on the fact that their ratings constitute of individual opinion and is not an investment advice. Credit score provided by the rating agencies should not be considered as a recommendation for buying, selling or holding any security and so the investment decisions should not be taken solely on based of credit rating. Credit rating do not provide opinion about the overall investment on any specific security rather it addresses the creditworthiness only. So, the US Securities and Commission advices to use credit rating as a supplement and not a substitute of research done by an individual.

3.2. The Role of Credit Rating in Bangladesh:

Credit rating agencies plays a very vital role in financial markets by solving the issue of information symmetry between the lenders or investors and borrowers or issuers regarding the credit worthiness of the latter. With globalization, the role of CRC has expanded and Basel II has given an additional boost to CRAs by incorporating CRA ratings into for fixing weights for credit risk. The credit rating is very important to the issuer as lower rating of the issuer results in higher payment of interest presented in the form of risk premiums. Besides, the credit ratings measures the qualification of debt securities and other instruments (Elkhoury, 2008, p.1).

In many developed countries, the loan is granted on the basis of the credit score of the client or the company but in our country the scenario is different. In our country, the credit rating is used to facilitate bank's capital structure only. Credit rating helps to decrease the loan's risk weight. Every loan has a risk weight against it and better the rating, lower the risk weight. If the risk weight is low then the bank has to keep less capital reserve. For instance, In Argus Credit Rating Services Ltd, the highest credit rating is AAA and the lowest rating is D. The companies having the highest credit rating of AAA, a bank must keep 20% of the risk weight. And with the decreasing credit rating, the requirement for capital increases. As much as 125% risk weighted asset as capital must be reserved for the companies having the lowest credit rating. According to the rules of Bangladesh Bank, in our country, the credit rating for any business entity is valid till one year. The business entities have to again renew their credit rating after one year. According to Syed Mahbubur Rahman, managing director of Dhaka bank, for the interest of the corporate governance of the banks, updated rating of the companies must be used as it is one the major indicators to judge a bank's financial health (The Daily Star, 2018).

Apart from helping to determine the risk premium charged on loans and financial instruments and assessing the bank's capital requirement, credit rating agencies also help the investors or debtors by providing important information regarding creditworthiness of an individual or company. Though investment decisions do not depend entirely on the credit score or credit report of an entity, the qualitative and quantitative analysis done by the credit rating agencies do help the investors to take investment decisions more wisely. The credit score also help the individuals or corporations to borrow money easily without going through credit evaluation from each lender separately.

3.3 Basel II and its Implementation in Bangladesh:

With the purpose of replacing the Capital Adequacy Framework of 1988 by a method which is more risk averse, the Basel Committee published its third and final proposal on the New Basel capital Accord. The new framework which is generally known as the Basel II was validated by the governors of the central bank and the supervisor authorities of the Group of Ten countries in 2004. Two methods were created by the Basel Committee to calculate the capital requirement for the credit risk. One method is the Standardized Approach where external rating from ECAI is used and those ECAI determines the risk weight for capital charges. Another method is Internal Rating Based Approach (IRBA) which enable banks and other financial institutions to construct their own internal ratings for risk weighing purposes. Large institutions usually adopt the IRBA but the small and medium financial institution does not normally have the large amount of funds to adopt IRBA so it usually prefers standardized approach to calculate regulatory capital risk.

Following the Basel II Accord, Bangladesh Bank has developed Risk Based Capital Adequacy guideline creating a cushion against the bank's capital charges. From January 01, 2010, BB authorized the guideline for all the scheduled banks. Basel II tries to ensure that the financial institutions have the lowest capital requirement for maintaining organization or institution liquidity by combining the Basel capital standards with the state regulations.

3.4 Basel III in Bangladesh:

Basel III proved to be inadequate during the global crisis of 2007 and Basel III was introduced in 2010 with an expectation to be fully implemented by the year of 2019 (Ahmed, 2016). Under the framework of Basel III, liquid and leverage ratios have been introduced and minimum capital requirement has been enhanced for banks. Basel III in Bangladesh was issued by

Bangladesh bank through the BPRD circular no. 7 on March 31, 2014 (Mobin, 2015). The goal behind the Basel III guideline in Bangladesh was to strengthen the loss absorption and shock resilience capacity of banks. But it was not the only reason for the implementation of Basel III in Bangladesh. There are several many other reasons among which the most important one is to have regulatory uniformity with global standards so that Bangladeshi banks do not lag behind in global competition. The recognition of Basel III is also important for improved risk management systems in banks.

Chapter 4: Overview of ACRSL:

4.1 About ACRSL:

Argus Credit Rating Services Ltd. (ACRSL), is the fifth credit rating agency to be accredited among the eight credit rating agencies in Bangladesh. It is a sister concern of ARGUS Research. It started its operation in 2011 as joint venture between a Singapore based credit rating company DP Information Group and local sponsors. Together with its foreign affiliates and local sponsors, ACRSL has brought world-class expertise in to Bangladesh's credit markets with the intention of improving the capital allocation process.

4.2 Organizational History of ACRSL:

Argus research was first established by a group of Wall Street veterans in 2003 having substantial experience in the global management and research industry. This group of skilled individuals recognized an opportunity to bring outstanding equity and credit research efficiency to the Bangladeshi capital markets and to improve the proficiency of this frontier market. Afterwards, several Bangladeshis both residents and non- residents joined Argus research to shape the core. During its five years of existence, Argus management emphasized on developing a local infrastructure which includes- setting up operations, getting various licenses, recruiting employees and building a vast array of software modules and templates to support the research process. Having a vast global network, the initial business strategy of Argus was to focus on conquering international Business. During the phase of 2003 to 2008, Argus branded itself as "Argus Research & Consulting for Advanced Technologies (ARCAT)", given the massive in-house talent inhibited in the high technology sector. By 2008, three significant catalysts united to create a crucial change in direction of Argus. The three catalysts were- the starting of exponential growth in Bangladesh's capital markets, Argus's strategic alliance with RACE Management, PCL and the decrease in revenue generation in international markets due to global recession. So Argus management maintaining its flexible nature, decided to shift their focus from international markets to the emerging Bangladesh capital market opportunities. During this time, Argus rebranded itself as “Argus Credit & Equity Research (ACER)” to expand its focus on the much broader capital markets of Bangladesh. While continuing its relationships, ACER has swiftly became the leading research franchise in the Bangladeshi capital markets. During this time ACER has introduced many products in the market including: Daily Market News & Analysis: Before the Bell; Market Chatter; After the Close, Weekly Cross Currents, First sectorial indexation for local stock market, Technological analysis on local markets, Whitepaper on the Bangladesh Mutual Fund Industry and Bangladeshi Banking Industry. The innovation and advanced research has attracted several customers and strategic partners like Race Management PCL, EBL, TBL, IFIC, ICB Islamic Bank, JBL, LRK Securities, EPL etc. Later on, to accomplish the goal of expanding the equity practice, to enter the strategically important credit analysis market and to offer credit rating services ARGUS Research Bangladesh Ltd came together to found the sister organization ARGUS Credit Rating and Services Ltd (ACRSL) which got its license from SEC in 2011.

4.3 Mission:

- Assist the investor to accurately measure the risks in the credit markets and assist them to access credit timely in a cost effective way
- Conduct rigorous inspection, apply cross-checks, find out hidden patterns and analyze all information relevant to credit risk of an entity or instrument
- Constantly monitoring the ever changing environment and adjust the credit rating accordingly
- Provide top quality service to the customers but be uncompromising in terms of preserving independence

- Train the local talent to world-class standards

4.4 Vision:

The vision of Argus is to be Bangladesh's premier credit rating agency. To achieve this vision they are continuously aiming to bring outstanding financial innovation to the local credit markets while sticking to the highest standards of business conduct. These unfaltering expectations provide the base for their commitment with whom they interact.

4.5 Types of Credit Rating Performed by ACRSL:

While carrying out a Credit Rating assignment, the process is guided by rating methodology which sets the framework to execute credit rating analysis. Keeping in mind the various industry segment and client requirements, the following types of credit rating is practiced in ACRSL.

Financial Instrument Rating: Financial Instrument Rating is an analysis of the issue structure and terms of financial instruments like bonds, preferred shares, securitized bonds and derivatives in one hand and on the other hand evaluates the suitability of those instruments within the framework of the entity's business plan and the financial model. Besides, Argus evaluates other qualitative factors like the competitive strengths, dealings with other stakeholders and ownership structure. Industry risk analysis is done to evaluate all the risks and competitive factors faced by the entity in that particular business. Some of the key factors to be analyzed are demand-supply, business cycles, price trends, research and development requirements, entry barriers, prevailing policies and regulatory framework. If the entity operates in different industries, each business segment is assessed separately. Besides, ACRSL analyses if there is appropriate and adequate management structure to manage these several business segments. ACRSL also has to consider the seasonality and cyclicality and has to be stable in their ratings if the performance of the business varies through different economic cycles. This form of rating mainly assesses the likelihood of the repayment of the principal on time and the payment of interest over time till the maturity of such instruments (Mobin, 2015).

Corporate Rating: The same methodology used to assess financial instrument can be applied to Corporate Rating as well. This form of rating assesses the corporate entity's capability of meeting all its debt obligations. The difference between instrument rating and corporate rating is that, it doesn't give opinion on a particular borrowing based on their specific structure instead corporate rating gives a general opinion on all borrowings of that particular entity. This form of rating also incorporates IPO (Initial Public Offering) rating (Mobin, 2015).

Financial Institution Rating (Banks and NBFI's): "Financial Institution Ratings are applied to assess the creditworthiness of financial institutions (FI)" (Mobin, 2015). In FI rating both quantitative and qualitative factors are analyzed before reaching a rating decision. First, ACRSL analyzes the financial performance and the stability of the financial institution and to analyze that the quantitative factors that needs to be considered are capital adequacy, asset quality, resources, liquidity and earning quality. Apart from these quantitative factors, some qualitative factors are also considered in the rating process like "ownership, management quality, risk management, compliance and statutory requirements, accounting quality, size and market presence" (ARGUS Credit Rating Services Ltd, n.d).

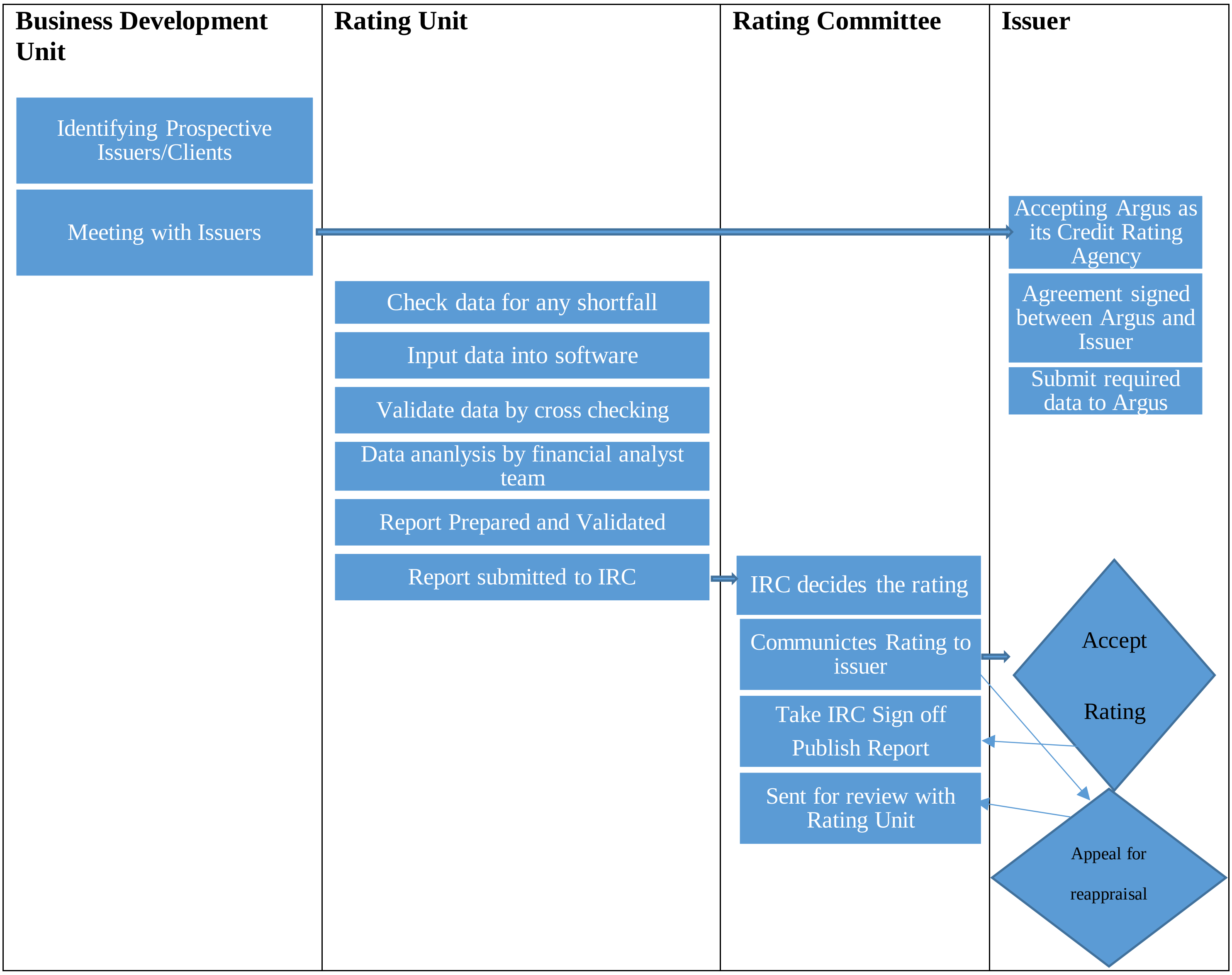
Insurance Rating: This type of rating measures the credit worthiness of the insurance companies, both general and life insurance (Mobin, 2015). The rating of insurance companies begin by reviewing the industry and economic environment in which the insurance company is operating. ACRSL analyses the competitive position of the company and the insurance regulations. Then it uses the CAMELS framework to measure the insurance company's financial strength. The risks underwritten is analyzed where an assessment of various qualitative and quantitative factors is done such as "market share, geographical spread, diversity of the risks underwritten, pricing of insurance products, underwriting expertise, competitive advantage, mix of tariffed and non-tariffed products, product innovation, proportion of long tail businesses and exposure to lumpy risks such as catastrophe covers" (ARGUS Credit Rating Services Ltd, n.d). Besides, ACRSL also analyses the company's operating leverage to assess the present and potential underwriting capacity. Apart from it, ACRSL also examines the asset quality, management quality, earnings, underwriting performance, performance of investment operations, overall profitability of the issuer through analyzing few ratios and liquidity.

Project Financing Rating: In project finance rating ACRSL assess the risk associated with a project. Companies raise funds from the investors to finance their project and future payments gained from the project is used to pay back the investors. The analysts rate the project's ability to pay back the principal and interest to the investors on time. Before providing the rating decision various factors are analyzed such as the reason behind the implementation of the project, the funding pattern of the project, the size of the project in comparison to the company's current scale of operations and net worth. Besides, the regulatory agreements, agreement with equipment suppliers, track record of the company in implementing similar projects, tracking the project progress etc. are also assessed by the analysts of ACRSL.

Small and Medium Enterprises (SME): In this form of rating, ACRSL assess the credit worthiness of the small and medium enterprise. In this form of rating the operation of the SMEs are assessed by considering both qualitative and quantitative factors. ACRSL uses a comprehensive methodology where they do the assessment in five broad areas: financial risk, business risk, management risk, bank relationship risk and financial security risk (ARGUS Credit Rating Services Ltd, n.d).

4.6 Rating Procedure of ACRSL:

The rating procedure starts by identifying prospective issuers or clients by the business development unit and when an issuer appoints Argus as its credit Rating Agency, the business development unit fix a meeting with an issuer. After the agreement is signed between Argus and the issuer, the issuer is requested to submit all required data to Argus .After collecting the data, the data is checked by the rating unit if there is any shortfall of data. After checking all the data, the data is entered into the software. Then the data is validated by cross checking. After the cross checking, the data is analyzed by the Financial Analyst team. On the basis of the analysis a report is prepared and then validated. Then the report is submitted to IRC (Internal Rating Committee) and the IRC decides the rating. Then the rating is communicated to the issuer and if the rating is accepted then the IRC sign off to publish the report and if the issuer do not accept it, they appeal for reappraisal and seat for review with rating unit. After reviewing the result, the report is again submitted to the IRC.



Source: Brochure of ACRSL

Figure1: Credit Rating Procedure of ACRSL

Information Collection:

Information collection is in the form of both primary and secondary information. Once a legal agreement is signed between the client and Argus, Argus initiates the process of collecting information. Since modernization and the use of accounting law and guidelines were neglected by previous generation owners, the visibility of income and expense is blurred by various clients to restrict disclosure of information. It is also observed in various times that many client also produces several financial statements each to cater different purpose (The Daily Star, 2014). Moreover, it has also been witnessed that many limited companies although are required to prepare audited financial statements are not abiding by the rule set out by The Companies Act 1994 (Credit Rating Company Rules 1996). However, in recent years, the guidelines and policies issued by Bangladesh bank and other associations has enforced local businesses to maintain a certain set of paperwork which has helped to maintain the flow of information and its visibility. Due to the client's negligence of maintaining proper flow of information and its visibility in the past, Argus faces difficulty in collecting authentic information.

Data Input and Analysis:

Subsequent to collection of valid and relevant information from every possible source, Argus incorporates it into the software or specially designed format which has been acquired from the Argus's International Technical partner. Once incorporated, the formats generate various aspect of analysis, however, physical verification, information obtained from industry, peers, banks, government institutions, etc. are also incorporated to form an overall understanding of the business in the current context in addition to understanding its future position. During this stage, Argus makes use of various financial models; whichever fit in the context of Bangladesh, to present their analytical findings.

Rating Committee:

Once all the findings and analysis is concluded, it is presented to a selected board of members in Rating Committee (Credit Rating Companies Rules, 1996). It comprises of appropriate professionals who shall double check the documents and information on which the analysis was made. The credit rating report is scrutinized along with sources of information, physical verification, analysis method, business perspective, etc. Once the board is convinced on the due diligence during analysis of the client, the board approves a designated Credit Rating Grade, which justifies the client's creditworthiness.

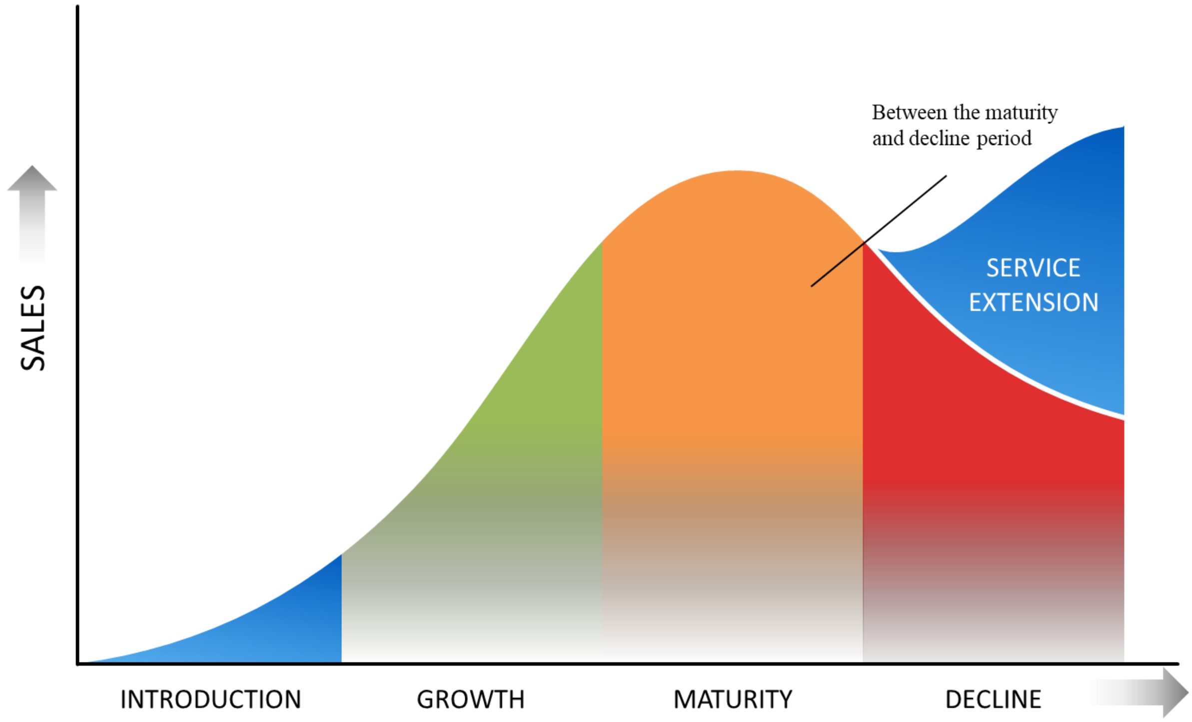
Reporting:

As the rating process concludes and the board has approved a Credit Rating Grade, the report is sent to the client by means of electronic mail. Once the report reaches the client, they mostly place meeting to discuss the reasons for the assigned grade. In case of various big clients, such as group of industries, banks, insurance, etc., several meetings are conducted between different segments of management to discuss various issues. Many such issues are the source of information and their authenticity and reliability, any misunderstanding of operating process that may have happened, eagerness to provide various documents which were not provided to ACRSL initially when requested. Once all the issues are addressed by both parties, the report is confirmed by the client to proceed to the next step. The report is then discussed with client and finalized. Once the report is printed, Argus publishes the credit rating and incorporates the grades in all necessary reporting made to various regulatory bodies. However, the responsibility of the Argus still remains after completion of the credit rating assignment. Argus needs to be at continuous watch as to whether the assigned grade is still applicable to the designated client. If any occasion occurs when the grade is no longer applicable to the client, Argus has to follow certain step to revoke the assigned grade. Apart from continuous watch, ACRSL is also liable to carry out surveillance review (next consecutive 3 years as per BSEC Law) every year of rating.

Chapter 5: Industry Analysis of ACRSL

5.1 Industry Life cycle of Credit Rating Industry:

There are five stages of an industry life cycle. The five stages consists of birth, growth, shake out, mature and decline. The foundation of the credit rating industry in Bangladesh was laid by the development of the first credit rating agency, Credit Rating Information and Services Ltd (CRISL) in 2002. After CRISL, another credit rating agency entered the market in 2004 named Credit Rating Agency of Bangladesh (CRAB). Following CRISL and CRAB, many other credit rating agencies has entered the credit rating market over the years. Argus Credit Rating Services Ltd. began their operations in 2011 becoming the fifth credit rating agency in Bangladesh. Currently there are eight credit rating agencies which is the largest number of credit rating agency in the world. The main reason behind so many credit rating agencies in our country is the political affiliation. Most of the credit rating agencies were issued license without considering the size of the market and without estimating the market need. Due to this large number of credit rating agencies, there is intense competition in the market which has led the credit rating industry to the path of decline. As per Basel III road map, Bangladesh Bank may introduce IRBA (Internal Rating Based Approach) in future which means bank will develop Internal Rating of their own as a result the banks won't need the help of credit rating agencies to calculate their capital requirement. The large number of credit rating agencies and the possibility of introduction of IRBA which might reduce the need of credit rating agencies in the future indicate that the credit rating industry in Bangladesh is in between the maturity and decline stage. This stage of the credit rating industry in the industry life cycle affects all the credit rating agencies including ACRSL. As the credit rating industry is already in between the maturity and decline stage, this indicates that if ACRSL want to survive, they have to introduce new services different from their competitors and have to shift their focus on their extended services so that if BB introduces IRP, they can still survive by selling their other services.



Source: SlideHunter.com

Figure2: Industry Life Cycle

5.2 External Factors:

5.2.1 Economic factors:

The economic condition:

A rapid increase in private investment and capital investments, increase in income level, decrease in inflation rate, corruption and slow decision making in economic reform implementation- all these factors which indicates the overall economic condition of Bangladesh has direct influence in the credit rating industry. With rapid increase in private investment and capital investment and decrease in inflation the number of businesses are growing which is creating new opportunities for ACRSL. On the other hand, the corruption and malpractice in the financial sector negatively affects the business of ACRSL. Malpractice like the use of expired credit rating by some banks, to avoid keeping the required capital can affect the profitability of credit rating agencies including ACRSL.

Economic growth:

The GDP growth of Bangladesh has a direct effect on the credit rating industry like any other industry. "The World Bank has forecasted the GDP growth in Bangladesh at 7.2% for the fiscal year 2019-2020" (The Daily Star, 2019). With the growth of the GDP, the economic growth happens which in turn increases the number of business in a country. All the financial institutions and NBFI's benefit from the economic growth. As, the main function of Argus is to rate entities, they benefit from the economic growth. Also with the economic growth, the market for financial instrument also flourishes, as Argus does instrument rating apart from the entity rating, they benefit from the increased demand in instrument rating as well.

Lack of proper governance in financial sector:

The failure of the government to properly manage the financial sector has proved to be threatening for the credit rating industry. Bangladesh's financial sector is facing a massive governance crisis which has resulted in the increase of defaulted loans in banks (Islam, 2018). As the credit rating industry is a part of the financial sector, the mismanagement in the financial sector also affects the credit rating industry severely. Argus assess the capital structure of banks. When there is a lack of governance in the banking sector, a lot of banks use expired credit rating instead of renewing their credit rating. This impacts the business of Argus negatively.

Government economic policies and foreign economic policies:

The economic policy of the government regarding exchange rates, interest rate, wage rate, inflation etc. influence the credit rating industry directly. Depreciation in the exchange rate and decrease in inflation increase economic growth which is good for the credit rating agencies including Argus. Besides, the wage rate influences their business. If the wage rate increases, the profitability of Argus will decrease and if the wage rate decreases, their profitability will increase. Also the introduction or changes in foreign economic policies like any global policy or US policy regarding credit rating impacts all the credit rating agencies in Bangladesh including ACRSL.

5.2.2 Political Factors:

Political instability of Bangladesh:

The prolonged political crisis results in low investment which generates decrease in employment and low income. This affects all the credit rating agencies including ACRSL.

Government Taxation:

The taxation laws of the credit rating agencies is one of the significant factors affecting the credit rating industry. All the credit rating agencies of Bangladesh including Argus has to pay 7.5% VAT to the government which influence their profitability and income (Customs Act, 1969).

Government legislation:

Any sort of legislation or restrictions imposed on this industry by the government affects the credit rating agencies. With the aim of maintaining the rating quality in the domestic market, the Securities and Exchange Commission of Bangladesh has obligated domestic credit rating agencies pursuing licenses to have joint venture or technical collaboration with any recognized international credit rating agency (SECB, 1996). Like other credit rating agencies, these government legislation affect ACRSL as well.

5.2.3 **Technological Factors:**

The availability of credit information in internet:

In this age of technology, a lot of information of the client or company is available on the internet. This helps ACRSL to get access of the information about the client and the company easily but at the same time it can create a threat. In many developed countries, individual credit rating information is available on the internet. If that happens in our country then that could affect all credit rating agencies including ACRSL as their main business is to give rating to the individual or organizations.

Computerization:

Currently, software and many computer applications are being used in preserving and analyzing of the financial data of the client or organization which has made the credit rating process easier for Argus.

Credit information available in websites:

ACRSL has provided their credit rating product/services, rating methodology and published credit rating reports on their website which help their prospective clients or organizations to know about the agency.

5.2.4 Legal factors:

Credit rating laws of Bangladesh:

The CRC (Credit Rating Companies) Rules issued by the SECB has created the provision for ruling, monitoring and controlling the business of credit rating in Bangladesh. The section 3 of

CRC has made the rating of debt security or public shares mandatory by the credit rating company ("Credit Rating Company Rules", 1996). As a part of the credit rating industry, the CRC rule and the other laws regarding credit rating has a great influence on ACRSL.

Global Laws of Credit Rating:

Bangladesh Bank follows the Basel II Framework according to which a domestic credit rating agency (DCAI) has to be acknowledged as External Credit Assessment Institution (ECAI) so that credit rating agencies are more transparent in their rating process and code of conduct. Also the code of conduct published by the IOSCO also have a great impact on lessening the discrepancy in operations and rating quality. All these global laws impact ACRSL.

Lending or credit policies of the banks and other financial institutions:

The lending or credit policies of financial institutions specially bank's credit policies affects the rating of the organizations rated by the ACRSL. In 2019, Bangladesh Bank introduced a new guideline on credit risk management called Internal Credit Rating to reduce the risk of default loans (bdnews24.com). The aim of this guideline is to help the financial institutions in managing and controlling credit risks which incurs through the managing of the creditworthiness of the borrowers and maintain the quality of credit transactions (bdnews24.com, 2019). This type of policy changes affects ACRSL.

Employment Law:

Employment law in our country is regulated by the "Labor Rules, 2015" and "Labor Act, 2006". This Rules and Acts are also applicable for all the credit rating agencies including ACRSL.

5.2.5 External effect of the regulatory bodies of ACRSL:

Bangladesh Securities and Exchange Commission:

The BSEC has issued license to Argus Credit Rating and Services Ltd in 2011 under the "Credit Rating Companies Rules 1996". It monitors ACRSL and supervises if they are being compliant with the rules imposed by the CRC rules 1996. BSEC acts as the regulator of the capital market of the country constitutionalized through the "Securities and Exchange Commission Act 1993" (Mobin, 2015). BSEC rules 2004 has made it mandatory for every debt instruments or public shares and right shares at premium to be credited by an ECAI before their issuance which impacts the business of all credit rating agencies including ACRSL.

Bangladesh Bank:

Bangladesh Bank has provided accreditation to ACRSL. Bangladesh Bank is the central bank which is the regulator of the monetary and financial system in our country. Every credit rating agency's methodologies including ACRSL's methodology has been developed within the guidelines of Bangladesh Bank. According to the BRPD circular issued on 29 may 2004, all listed banks were instructed to acquire rating prior to they proceed for "Initial Public Offering".

Insurance Development & Regulatory Authority Bangladesh:

IDRA is the main regulatory authority of the Insurance companies in Bangladesh. All the private and public insurance companies are regulated under the rules and guidelines of IDRA. Like Bangladesh Bank, IDRA has also brought the credit rating agencies under its supervision and guidance. The rating agencies that want to execute insurance sector rating, have to adhere to a set of guidelines created by the IDRA. As ACRSL do insurance sector rating, they have to adhere to IDRA.

5.3 Competitive forces of ACRSL:

The five main competitive forces that need to be taken into consideration are the power of the buyer, supplier power, threat of substitution and barriers to entry.

Power of the buyers:

The buyer of ACRSL are the individuals or organizations whom they provide their service. The rating fee of the credit rating agencies are uniformed means the rating fee is fixed for all credit rating agencies by the Bangladesh Bank. Thus, there is no bargaining power of the client or customers over the rating fee.

Power of Suppliers:

ACRSL do not have any supplier as their main service is providing “credit rating”. The main raw material for providing the credit rating service is all the information specially the credit rating information collected about the client or the organization. ACRSL collect this information from the client directly or from the bank that collects information on behalf of the customers. So in case of ACRSL, we can say that, the buyer (client or the company) is the actual supplier of the credit rating service.

Threat of Substitutes:

Currently, no other industry in the financial sector provides the service provided by the credit rating industry. But Bangladesh Bank has been pushing for the adoption of IRBA (Internal Rating Based Approach) since a very long time. In the past, the adoption of IRBA was unrealistic as banks didn’t have sufficient expertise in IRBA. For implementing IRBA, a sophisticated IT system and trained staff who understand the credit rating is required. But Banks lacked expertise on these areas before. But as time is passing, a lot of banks are developing a robust IT system and also developing skilled employees with good understanding of credit rating. So in near future it might be possible that some banks do adopt IRBA and do their own assessment of capital requirements for credit risk which will result in the decline of need of credit rating agencies in banking sector. If banks do their own assessment then they will not need the help of credit rating agencies anymore. For now, it might not seem as a substitute because this IRBA will still take some time to be on full effect but in future it can become a substitute of credit rating agencies. So this could be a threat for all the credit rating agencies including ACRSL as one of their main function is to measure the credit risk for banks.

Barriers to entry:

The main barrier to enter the credit rating industry in our country is the existence of already established eight credit rating agencies. As there are already eight credit rating agencies in our country, if a new agency want to enter the market then they have to face the intense competition from the already established one. T.M Huda, COO of ACRSL, said that, Bangladesh Bank has a proposal to cut down the number of credit rating agencies due to the excess number of credit rating agencies in our country which has resulted in the failure in maintaining proper guidelines and regulations by some of the agencies (personal communication, November 26, 2019). Bangladesh Bank might shut down few of the agencies in future which lack transparency and ethical code of conduct. As Bangladesh Bank is already thinking of reducing the number of credit rating agencies, now it will be more difficult for a new entrant to enter the market. Also the complex regulatory system is another barrier to enter the market. This barrier to entry positively impacts the business of ACRSL as it protects them from any further competition.

Rivalry among existing competitors:

The number of credit rating agencies in our country is very high. There are eight credit rating agencies in our country. So, a lot of competition exists among the rating agencies. But the main competitors of ACRSL are CRISL and CRAB which is the top two credit rating agency in

Bangladesh. As CRISL and CRAB enjoys the first mover advantage in the credit rating industry, they give very tough competition to ACRSL.

5.4 The Challenges and Strategies of ACRSL:

5.4.1 Challenges in the Credit Rating Industry:

The limited scope of credit rating agencies in comparison to developed countries:

In many developed countries, the loan is approved to a client or an organization on the basis of their credit rating. In developed countries, the credit rating is a million dollar business. If we consider S&P or Moody's, they are amongst the fortune 500 companies which refers that their earning is huge because they are paid huge amount of money to produce a credit report. But in Bangladesh the scenario of credit rating industry is different. According to T.M Huda, COO of ACRSL, in our country, credit rating of a company helps the bank to get an advantage of capital charge and the credit rating is done only due to that purpose. But in developed countries, the loan decision depends on the credit score or the credit report of that company. But in our country bank just use the credit rating report as a part of the document and bank does their own assessment on the client or company before sanctioning the loan. In developed countries, the credit rating is the ultimate credit assessment but in our country it is only used for a particular purpose that is to facilitate bank's capital structure. Credit rating helps to decrease the bank's risk weight. Every loan has a risk weight against it and better the rating, lower the risk weight. If the risk weight is low then the bank has to keep less capital reserve. In our country, the credit rating done by the rating agencies is based on publicly available information and information provided by the rated entity or their agents or representative. The credit rating agencies do not do any verification of the information they receives. But ideally they should have done an in depth analysis on the physical structure, the stocks, bank statement, refection, industry, performance, supply and demand, market need and customers, viability, feasibility and other aspects of the company. But the agencies just do their analysis only on the basis of publicly available information or information provided by the client, they do not verify those data neither they do any further research or assessment. This is due to the reason that the loan approval do not depend on the credit rating only in our country and bank do their own assessment on the clients or company, thus it limits the scope of the credit rating agencies and decreases their profitability. If the credit rating agencies in Bangladesh could get the opportunity to do these in depth assessments, their fees will be much more than which it is now. So this decreases the profitability of all credit rating agencies including Argus.

Lack of instrument rating expertise:

The credit rating agencies are mainly expert in entity rating means credit rating of public and private company. They still lack expertise in instrument rating which requires specialized knowledge on fixed income markets, bond instruments and structured finance.

Lack of Fundamental Research Expertise:

The credit rating agencies of Bangladesh do not have expertise in market research, equity research or fundamental research and they do not publish report on these topics. This is the reason that the local credit rating agencies ask the company management to provide these information and simply include this in the credit report without any independent verification.

Lack of Valuation Expertise:

One of the primary tasks of the credit rating agency is to evaluate the worth of a credit instrument. According to the international standard of credit rating, the rating system should include the analysis of Cash flow based valuation, Comparable market valuation, Comparable section valuation, Binomial Valuation Techniques. But the local CRAs of Bangladesh do not process international valuation standard.

Different rating given by different rating agencies:

Sometimes different credit rating agencies provide different rating to the same individual or company which raise a question to the authenticity of the credit rating industry.

Conflict of Interest:

There is a conflict of interest in credit rating agencies because they are paid by the banks and organizations they rate. Sometimes the upper management interferes in the independent assessment of the financial analysts by using intimidation or harassment to persuade them to match with the desired ratings wanted by the clients. This conflict in interests create an obstacle in the independent analysis of the financial analysts.

Ensuring Quality Rating:

Ensuring quality rating in our country is a huge challenge as the SECB has been issuing license to local credit rating agencies without taking into consideration the market need, size and pricing. Also Bangladesh Bank is not doing any cost benefit analysis before recognizing the rating agencies as ECAI.

5.4.2 The Adopted Strategies of ACRSL to Overcome the Challenges:

Research Expertise:

Argus made sure that their Sponsor Group have at least five years of research experience. They have hired their key personnel on the basis of their research background. The founder of ACRSL has over 15 years of work experience in the field of equity and bond research. He has published hundreds of research reports. Also, ARGUS Research Bangladesh Ltd which is a sister organization, has been operating in Bangladesh since 2003, producing research for international financial service clients.

Valuation Experience:

ACRSL has made sure that their Sponsor Group of Argus have at least 5 years of demonstrable valuation experience. They have hired their key personnel ensuring they have valuation background. The founder of ACRSL has a global experience on valuation methodology and techniques. He has many published report and articles on this topic and he has also been a global speaker on this subject. Also the sister concern of ACRSL such as RACE Management, PCL, ARGUS Research Bangladesh Ltd and HIRA capital all have expertise and practical experience in the application of valuation.

Fixed income market experience:

The Sponsor Group of Argus must have at least 3 years of demonstrable fixed income sector experience. They have hired their key personnel ensuring they have fixed income product, trading and analysis background. Dr. Hasan Imam and Nafeez Sarafat have pioneered the concept the First Bangladesh Fixed Income Fund dedicated to improving the liquidity of the Bangladeshi Fixed Income markets. The fund claims to sponsor Janata Bank, Sonali Bank, ICB, Trust Bank and Eastern Bank Ltd.

Non-resident Bangladeshis with global experience:

The Sponsor Group of Argus include non-resident Bangladeshis with global experience who has the required technical expertise relevant to credit rating services. The Sponsor Team gathered their experience by working in some of the best and largest financial institutions globally. The team has sector specific research experience and has built a proprietary credit rating model within its Risk-Return-Rating platform (RRRR).

Ensure independence of the analysts:

Argus is committed to provide world-class services to their clients but at the same time they remain uncompromising in their independence getting rid of the conflict of interest between different parties.

Quality Assurance:

ACRSL tries their best to provide best quality services to its customers both before and after the engagement. They use their global experience and their best and most innovative tools to ensure highest quality service.

5.5. SWOT Analysis:

Strengths	**Weakness**
• Highly trained professionals • Highly developed international standard rating process • Best in class technology	• Lack of first mover advantage • Inability to collect sufficient information from some local organizations • Bias of the employees
Threats	**Opportunities**
• Bank's adoption of IRBA • Lack of governance in credit rating agencies • Intense competition due to large number of credit rating agencies	• Increased demand of SME rating • Increasing demand in instrument rating

Table 1: SWOT Analysis of ACRSL

<u>Strengths:</u>

Highly trained professionals:

One of the major strengths of Argus is their highly trained local and non-resident employees with technical expertise in credit rating services. Their highly trained employees have expertise in research and valuation and has experience in fixed income market with extensive global experience.

Highly developed international standard rating process:

Another major strength of Argus is their international standard rating process. Their international standard rating process has been established jointly by DP information group and ACRSL. DP has already a track record in Asian market for credit rating services which can be reflected in the process of ACRSL.

Best analytical tools:

They have unique analytical tools that differentiate them from other credit rating agencies in the industry which includes mathematical models, refined technology and fundamental sector or entity research supported by their comprehensive database on listed and non-listed companies of Bangladesh.

<u>Weakness:</u>

Lack of first mover advantage:

Argus is the fifth credit agency which entered the market. Before that, there were already four credit rating agencies. CRISL and CRAB were the first two credit rating agencies which entered the market so they enjoys the first mover advantage. This two credit rating agencies are still the top two credit rating agencies in Bangladesh. As ACRSL entered the credit rating market later, they had to face more competition and they couldn’t have the first mover advantage.

Inability to collect sufficient information from some local organizations:

The previous generation owners’ negligence in terms of following proper accounting law and guidelines creates a problem in collection of sufficient and authentic information from the clients. Also sometimes clients are reluctant to provide sufficient information due to the risk of data theft and confidentiality. This is a weakness for Argus because without the collection of sufficient and authentic information, it becomes very hard for ACRSL to maintain the accuracy in credit rating.

Bias from the employees:

Sometimes the staff has association with the organization or the client they are rating, in that case it becomes sometimes difficult for the staff to avoid human bias. This human bias by the stuff, affects the rating of ACRSL.

<u>Threats:</u>

Bank’s adoption of IRBA:

Following Basel II, Bangladesh Bank might issue a guideline and introduce Internal Rating Procedure which will allow banks to develop their own Internal Rating to assess their capital requirements by themselves. Once the IRBA is adopted by the commercial banks, the banks will not need to depend on the credit rating agencies anymore for their capital assessment. Currently, banks are the one which is being most benefited from credit rating because it helps banks to be cautious in maintaining lending and deposit ratio. The benefits of credit rating is more visible to banks and NBFI’s rather than the clients. So in future if IRBA is adopted by banks it will create a huge threat for all the credit rating agencies including ACRSL.

Lack of governance of the credit rating agencies:

There is a lack of governance in the financial sector in our country which includes the credit rating agencies as well. Due to the lack of governance, some credit rating agencies do not maintain proper guidelines issued by the BSEC and Bangladesh bank. The credit rating industry lacks transparency and ethical code of conduct. Due to failure in maintenance of proper guideline, Bangladesh Bank has given a proposal to shut down those credit rating agencies which do not comply with rules and regulations of BSEC and BB.

Intense competition due to large number of rating agencies:

Bangladesh has the highest number of rating agencies. Due to the huge number of rating agencies, there is intense competition among the credit rating agencies. Due to the large number, it has become very hard for some credit rating agencies to survive in the industry. Due to this intense competition, some rating agencies downgrade their fees unethically, to survive in the industry.

Opportunities:

Increasing demand of SME rating:

The demand of SME rating services is increasing day by day as the number of SME is increasing rapidly in our country. Currently, there are millions of SME's in Bangladesh and to encourage the development of SMEs Bangladesh Bank has introduced SME rating. This SME rating has helped the SME's to get access to loans easily and has increased their profitability. As the SMEs are getting a good value for the credit rating, more and more SMEs are rating themselves through the credit rating agencies. As the number of SMEs are increasing day by day, it can open new door of opportunities for the credit rating agencies.

Increasing demand of instrument rating:

SECB has made credit rating mandatory for all debt instruments and equity offerings which has opened new opportunities for the credit rating industry. “SECB through an amendment in 2009, has mandated the issuer to enter into an agreement with the credit rating agencies for a minimum of 3 years and the surveillance of bond rating would continue throughout the life of the instrument” (Tsunoda, Ahmed & Islam, 2013)

Chapter 6: Internship Experience in ACRSL:

I was working in the corporate office of ACRSL. I was working in the operations department under the supervision of the Assistant Vice President, Mr. Sayfullh Miah who guided me throughout my internship journey.

First Month:

In the first month of my internship, I worked with the business development team where I learned how to communicate with the clients effectively and how to collect information. I used to collect information from clients via phone and sometimes by visiting the clients directly through formal meetings. I was sent to various organizations and factories to collect information from the clients about their business model, product/services, strengths and concerns, diversification, seasonality and cyclicality, size, cost structure, market share, cash flow, corporate strategy, organizational system, control system, personal policies, corporate governance etc. I also learned how to input data on excel sheets regarding the historical data of clients and data from the financial statements of the clients. In the first month of my internship my main duties were to communicate with the clients, to visit clients for collecting necessary information, collect information from the client's website and input data on excel sheets from the financial statements of clients.

Second Month:

In the second month of my internship, I learned the details of their rating procedure and worked with the rating department. I learned how to analyze the financial statements of the clients.

Third Month:

In the third month of my internship I assisted some financial analysts in preparing credit rating.

Chapter 7: Findings:

7.1 Problems faced by ACRSL in their credit rating

Unavailability of market or industry information:

In Bangladesh, many past generation local business didn't comply the accounting law and guidelines which creates a problem for ACRSL for collecting information. Also some organization or client's show reluctance in providing some information due to the threat of theft and to maintain confidentiality. This lack of sufficient information affects the credit rating of ACRSL.

Lack of monitoring by Regulators:

The BSEC, BB and IDRA are the main regulators of the operation of credit rating agencies in Bangladesh. But there is a lack of monitoring by these authorities in the financial sectors. Due to the lack of monitoring, some banks may use expired credit score for businesses whose financial health have been deteriorated to avoid keeping the required capital (Uddin, 2018). Also due to the lack of governance, some credit rating agencies might break ethical code of conduct and neglect maintaining the guidelines issued by the regulators. This lack of monitoring affects the business of ACRSL.

Lack of encouragement by some corporate client to do rating:

The bank and FIs are mostly benefited by the credit rating as it helps the FIs to assess their capital requirement for risk weighted assets. The sanction of loan does not depend on the credit rating rather it is only used by bank to facilitate bank's capital structure. So for the client, credit rating report is just a requirement which needs to be fulfilled before the loan sectioning or for the registration for IPO. Due to these reason some of the corporate clients feel discouraged to do their rating.

7.2 Recommendation:

Proper Monitoring by the regulators:

Regulators need to do proper monitoring of the domestic credit rating agencies so that there is less malpractice and the DCRAs who are breaking the ethical code of conduct and are not abiding by the rules and regulation should be penalized. Also the regulators should ensure that the banks are not using any expired credit rating.

Bank should provide some benefits to clients:

Bank can offer some benefits to its clients such as decreasing the interest rate for the clients who obtain credit rating. As mentioned before, clients sometimes are not interested in providing necessary information which in turn results in bad grading or score. So if the bank decrease the interest for the clients who receive a good credit score, more and more clients will be encouraged to do the rating

Educate more people on credit rating:

ACRSL can arrange more workshops and seminars to educate the people on credit rating. Through the workshops and seminars, they will be able to communicate the importance and benefits of credit rating to all the stakeholders.

Also ACRSL should ensure that their credit rating is free of all the biases and should retain their independence in terms of credit rating.

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