

CREDIT RATING AGENCIES IN INDIA : HAVE WE DONE ENOUGH?

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I. INTRODUCTION

“There are two superpowers in the world today in my opinion. There’s the United States and there’s Moody’s bond rating service. The United States can destroy you by dropping bombs, and Moody’s can destroy you by downgrading your bonds. And believe me, it’s not clear sometimes who’s more powerful.”

- Thomas Friedman¹

Credit Rating Agencies were primarily established to assess the creditworthiness of corporate borrowers, who directly borrowed credit from public, without going to a bank.² The first rating agency to be established was by John Moody in 1909 and it published a manual called “*Moody’s Analyses of Railroad Investments.*”³ It was the first rating publication in the history. Later by mid 1920s, others caught up with the idea of having rating agencies. This marked the establishment of other players in the rating business i.e. Standard Statistics, Poor’s Publishing and Fitch. Later Standard Statistics and Poor’s Publishing merged.⁴ The agencies have since then grown manifold in size and influence.

Credit rating is “an opinion regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system

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¹ PBS television broadcast, *The News Hour with Jim Lehrer: Interview with Thomas L. Friedman* (1996).

² Dr. K.P. Krishnan, *Report of the Committee on Comprehensive Regulation for Credit Rating Agencies* (2009).

³ Elizabeth Devine, ‘Collapse of an Empire - Rating Agency Reform in the Wake of the 2007 Financial Crisis, The Note’ 16 *Fordham J Corp & Fin L* 177.