

# Problems and Countermeasures of Rating Agencies in China

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## Abstract

**With the continuous development of the contemporary economy, the most important thing for the capital market is to establish an effective rating agency to ensure the sound development of China's rating agencies. But at present, there are many problems that need us to study deeply. Based on this, this paper first collates the development of rating agencies, then combined with the current situation of our country, puts forward the existing problems of rating agencies, and finally puts forward effective countermeasures and suggestions to solve the problems.**

## Keywords

**Rating agencies; Credit rating; Rating industry.**

## 1. INTRODUCTION

The previous rating agencies in China only involved in the commercial field. With the continuous enhancement of China's international capabilities, the rating agencies now also involved in the fields of education, medical care and environment. However, most of the rating agencies still analyze and study the business. This article mainly studies the credit rating agencies. The purpose of the existence of credit rating agencies is to reveal economic risks. Once credit rating agencies become spokesmen for interest groups, the rights and interests of financial consumers will be completely deprived and the social economic system will gradually collapse. Since our country introduced the rating industry in 1987, our country's credit rating agencies have been continuously developing from scratch and have played an increasingly important role in preventing financial risks and safeguarding the market economy system. With the rapid development of economic globalization, integration and liberalization, credit rating agencies also have many problems to solve in the process of development. Therefore, we should establish effective laws and regulations to ensure the healthy development of our credit rating agencies.

## 2. THE DEVELOPMENT PROCESS AND CURRENT SITUATION OF CREDIT RATING AGENCIES IN CHINA

In 1987, under the economic background at that time, China's rating industry gradually emerged. In order to adapt to the economic market at that time, China established some credit rating agencies. In the development process of credit rating agencies in China, there are roughly four periods.

### ① Germination Period (1987-1992)

From Table 1, we can see that in 1987, China began to introduce rating industry, and the first credit rating agency in our country, Jilin Province Credit Evaluation Company, appeared in Jilin Province. The following year, Shanghai Far East Credit Evaluation Co., Ltd., the first credit rating agency independent of the financial system, was established in Shanghai. Credit rating agencies

have begun to be established all over the country, marking the beginning of a new stage for China's credit rating agencies. As China's economic strength is continuously increasing and is still in its infancy, it is bound to face many difficulties during this period. Before 1989, all credit rating agencies set up by banks were required to be abolished. The number of credit rating agencies in China has been greatly reduced and a large number of rating businesses have been handed over to the rating committees, which has made credit rating agencies face many challenges in their development. In the following years, China promulgated a series of relevant laws and standards to make the work of credit rating agencies more specific and continuously promote the development of credit rating agencies.

**Table 1.** The budding period of credit rating agencies

Year	Institutions	Relevant laws and regulations promulgated	Development situation
1987	People's Bank of China and National Development and Reform Commission		Established the first credit rating agency - Jilin Province credit rating company.
1988	Financial Research Institute of the People's Bank of China		1. A seminar on credit rating theory, system, organization and method was held in Beijing. 2. Shanghai has established the first credit rating agency independent of the financial system in China-Shanghai Far East Credit Evaluation Co., Ltd.
1989	The head office of the people's bank of China	"Notice on Revoking Securities Banks and Reputation Evaluation Companies Established by People's Bank of China"	All rating companies established by banks are required to be cancelled, and their business shall be handled by the credit rating committee.
1991-1992	National Association of Credit Rating Agencies	"Credit Rating Measures"	At the end of 1992, the national credit rating committee was established.

(Source: according to relevant laws and regulations, the author arranges)

### ② Exploration period (1993-1999)

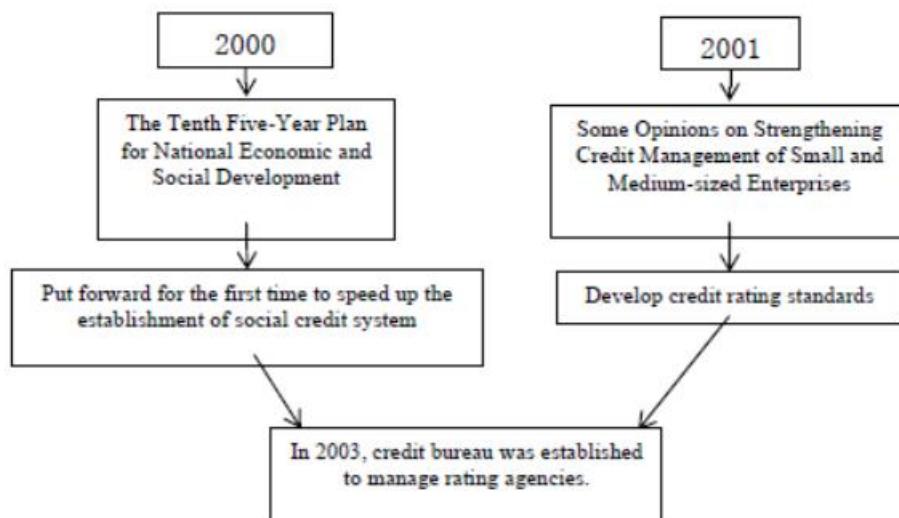
Most of the credit rating agencies in China were set up in the embryonic period. After long-term exploration, China began to involve bond credit rating agencies in 1993, making new development and breakthrough. Before the credit rating agencies in our country, the rating objects were generally an enterprise or a product, and the rating results were provided to investors, regulatory authorities and enterprises for reference. However, after the People's Bank of China promulgated the "Measures for the Administration of Loan Certificates" in 1996, credit rating agencies began to provide reference for financial institutions, and their business scope has been continuously expanded. Credit rating agencies began to continuously explore in all aspects, making in-depth analysis of the credit rating of enterprises and providing more comprehensive rating results for the market.

### ③ Growth period (2000-2004)

As can be seen from Figure 1, according to the Tenth Five-Year Plan for National Economic and Social Development, China has begun to speed up the establishment of a social credit system, and local credit rating agencies across the country have begun to form one after another.

At the same time, a series of credit rating standards were also formulated in 2001, strictly regulating the development of rating agencies. Under the norms of various systems and standards, China has set up a credit bureau to supervise credit rating agencies, which also promotes the perfection of social credit rating standards and the rapid development of credit rating agencies.

During this period, China's credit rating agencies have greatly improved their rating system, standards and regulatory controls, and their market position is constantly improving. The government and relevant economic personages have gradually realized that credit rating agencies have a great role in promoting the development of our country, thus giving our country's credit rating agencies great room for growth.



**Figure 1.** Growth period of rating agencies

(Source: according to relevant laws and regulations, the author arranges)

#### ④ Development period (2005 to now)

In 2006, the People's Bank of China promulgated the "Credit Market and Inter-bank Bond Market Credit Rating Standard", which highlights that credit rating agencies must obtain approval from the competent rating department if they want to carry out normal rating work. In 2007, the CSRC issued a "Interim Measures for the Administration of Credit Rating Business in the Securities Market," which highlights a lot of analysis and research on the rating work of five credit rating agencies: Pengyuan Credit Rating Co., Ltd., Zhongchengxin Securities Evaluation Co., Ltd., Dagong International Credit Rating Co., Ltd., Shanghai New Century Credit Rating Investment Service Co., Ltd. and United Credit Rating Co., Ltd.

During this period, China not only put forward a large number of relevant documents to standardize the rating agencies, but also the credit rating agencies in China are gradually involved in the securities industry, which shows that the scope of work of credit rating agencies is constantly expanding and the rating industry has formed a certain market foundation. The industry leader of China's credit rating agencies is slowly emerging, and the problems of rating agencies are also constantly emerging.

At present, the current situation of China's rating agencies is as follows: with the deepening of internationalization, rating agencies are also constantly developing. China's credit rating agencies have formed a certain scale, leading agencies in the industry have gradually emerged, and to a certain extent, brand effect has also been formed. At the same time, the government

also issued and implemented a series of policies and regulations, which greatly promoted the development of the credit rating industry.

As our country's understanding of the credit rating industry is not deep enough and the management of credit rating agencies is not perfect enough, many foreign credit rating agencies want to directly or indirectly participate in the rating work of our country's credit rating agencies, and even want to directly participate in China's market. According to statistics, there are many joint ventures between China's credit rating agencies and foreign credit rating agencies, such as the China Credit Rating Agency and the United Credit Rating Agency, and they also have branches all over the country, occupying many rating businesses. Can account for more than 2/3 of the market share. Viewed from the side, foreign credit rating agencies restrict the development of China's credit rating agencies and are facing serious threats to China's rating industry and information security, making it difficult for China to have a say in the international financial service system.

### 3. EXISTING PROBLEM

In the process of the development of China's credit rating agencies, the overall level of the industry is not high, and the development of the credit rating industry is still lagging behind, far from meeting the needs of economic development. Until today, China's credit rating agencies still have many problems. The main problems of China's credit rating agencies are:

① Lack of supervisory control over credit rating agencies

In the process of development, China has established many laws and standards to make credit rating agencies more standardized, but credit rating agencies are often warned and ordered to correct due to the imperfect system of credit rating agencies in China. Moreover, in recent years, the credit rating market in our country is in chaos, and the supervision of the rating market has been continuously strengthened. Many financial institutions and rating agencies have been issued large fines and punished by the regulatory authorities. For example, Beijing Securities Regulatory Bureau requires Dagong International Credit to correct its own system problems and low financial management independence. Dongfang Jincheng was shown the warning letter because the employees did not follow the rating model and relevant rating procedures. These phenomena all reflect that there are great problems in the internal management of credit rating agencies, and the supervision of credit rating agencies in our country is mostly jointly managed by the People's Bank of China, Securities Regulatory Bureau, etc. This kind of multi-head management will inevitably lead to many problems and ineffective supervision. This shows that we should strengthen the supervision of credit rating agencies and continuously promote the further improvement of our credit rating agencies.

② Insufficient demand for credit rating market

Generally speaking, an enterprise or a product is the rating object of China's credit rating agencies, and the rating results will be provided to enterprises, investors and regulatory agencies as a reference basis. Up to now, China's credit rating agencies have reached almost 100, and the number of rating personnel is increasing, which leads to a small rating business and a narrow scope of business. Most of China's credit rating agencies rate some large enterprises, and these enterprises are relatively strong and often cooperate with the government and banks. Their credit ratings are generally high and do not need to be rated all the time. In addition, there are still many uncertainties in China's market mechanism, there are not many investment channels, and the ability of investors to predict and prevent risks is not very high. These phenomena all reveal that the market demand for rating results is not very high.

③ The core competitiveness of credit rating agencies is not strong

At present, the core competitiveness is a big problem facing our country. Compared with other countries' credit rating agencies, China's credit rating agencies have relatively narrow business scope and cannot form credit rating agencies with their own characteristics. For example, Moody's and Standard & Poor's rating businesses in the United States are mainly engaged in debt rating, while Jace Financial Services is relatively good at rating financial institutions, which all show the representative core competitiveness of foreign credit rating agencies. The reason why foreign rating agencies have high prestige in the country is that each credit rating agency in the United States has its own core competitiveness, has professional knowledge reserve and analysis ability in various economic, financial and management aspects, and can lead the development of international financial economy. China's credit rating agencies have always been open to all kinds of rating businesses. Almost all credit rating agencies are willing to undertake the rating business regardless of the rating business, which reflects the lack of core competitiveness of China's credit rating agencies with their own characteristics. At present, most of the credit rating methods used in China are based on the experience of foreign advanced credit rating agencies, which are not combined with China's economic development and cannot form their own core competitiveness. Although China's credit rating technology has made rapid development in recent years, the rating technology used by China's credit rating agencies is still at a relatively low level. Issues such as transparency and sharing of information also seriously hinder our collection of information, which cannot meet the needs of financial market investors and financial institutions for credit risk assessment and related risk management services, and cannot reflect the uniqueness of China's credit rating agencies.

#### ④ The credibility of credit rating agencies is not strong

Since the outbreak of the financial crisis, most people think that the credit rating agencies have not done their job properly and the credibility of the credit rating agencies has been severely hit. The deputy governor of the People's Bank of China once pointed out that compared with foreign credit rating agencies, the credibility of China's credit rating agencies needs to be further improved. The development process of China's credit rating agencies is relatively slow and is still under constant exploration. Although many rules and regulations have been established, there are still many imperfections. Moreover, there is still a big gap between China's rating technology and foreign credit rating agencies, which cannot provide accurate rating results for accurate analysis of the market. All these have seriously affected the development of the credibility of China's credit rating. Therefore, improving the credibility of credit rating agencies and establishing a scientific and perfect modern credit rating system in line with China's national conditions have become the biggest focus of our attention.

#### ⑤ The professional ability and professional ethics of credit rating personnel need to be improved

In 1989, the head office of the People's Bank of China requested the cancellation of all credit rating agencies previously set up by banks, and the number of credit rating agencies in China plummeted. This reflects from the side that the credit rating personnel in our country are still very weak in their understanding of credit rating and their professional ability is not strong enough. There is still much room for improvement and they need to continue to learn.

Moreover, in recent years, many credit rating agencies in our country have been fined one after another by the regulatory authorities, partly because employees were shown warning letters for failing to follow the rating procedures. With the continuous development of China's economic strength, the government, relevant departments, regulatory agencies and investors are also paying more and more attention to the rating results. Moreover, the work of credit rating agencies is originally a professional work, which requires credit rating personnel to use professional knowledge to make in-depth analysis on the risk degree and trustworthiness degree of rating objects, and to provide these rating results to investors and professionals in the

market for reference. Then our employees should improve their professional knowledge and moral quality, and should not be blinded by some interests and do something against professional ethics.

#### 4. COUNTERMEASURES TO IMPROVE THE DEVELOPMENT OF CREDIT RATING AGENCIES IN CHINA

##### ① Improve the rating system and strengthen the supervision of credit rating agencies

Our country established a credit bureau before, its purpose is to supervise credit rating agencies. In recent years, many credit rating agencies in our country have been issued fines and warnings, which shows that our country's supervision of credit rating agencies is not enough, leaving some credit rating agencies free to drill. Although many relevant laws and regulations have been established to supervise credit rating agencies, those laws and regulations are too one-sided. For example, the "Securities Law" revised in 2003 mentions eight "credit rating agencies" and their introduction is too one-sided, involving a small scope, and there is no specific operability for the supervision of credit rating agencies. This requires us to constantly improve relevant rating standards and laws and regulations. We can:

1. The state and professional economists should strengthen communication and cooperation, jointly issue a series of more specific laws and regulations, strictly supervise rating agencies, ensure the development of China's rating industry, and strictly implement them in accordance with laws and regulations.

2. We can absorb and draw lessons from the laws and regulations of foreign credit rating agencies, take their essence and discard their dross, so that our country can establish more effective standards.

##### ② Increasing demand for credit rating market

China's rating target has little demand for rating market capacity, which is one of the main factors restricting the development of the rating industry, such as competition among credit rating agencies. If you want to increase the demand of China's rating market, you must do the following:

1. Continuously improve China's economic market, increase market-oriented reforms, and provide more investment channels for enterprises or investors.

2. Raise the threshold of China's credit rating agencies, re-divide the previous credit rating agencies, and increase the demand of the rating market.

##### ③ Improving the core competitiveness of China's credit rating agencies

Core competitiveness is the source of energy for the development of an industry or an enterprise. If an industry or enterprise does not have its own unique characteristics, then its development space is very narrow, which will also cause its development speed to be very slow. Therefore, strengthening the self-construction of China's credit rating agencies is the only way to develop core competitiveness. We can:

1. To adopt a double rating system to improve the problem that China's credit rating lacks the ability to identify risks.

2. Cooperation between rating agencies and the government should be strengthened to jointly find out the core competitiveness of each credit rating agency and classify them to improve the accuracy of rating results.

3. To innovate credit rating agencies, only through continuous innovation in all aspects can they form core competitiveness with their own characteristics.

##### ④ Improve the credibility of rating agencies

Improving the credibility of credit rating agencies requires a long and difficult process. If the credibility of China's credit rating agencies wants to be further improved, the most important thing is to need government support to ensure the development of the rating industry, which can:

1. To further improve the rating system of China's credit rating agencies, give full play to the role of the market, promote the reduction of the rating bubble, and contribute to the return of rating effectiveness.
2. Credit rating agencies should attach importance to their own development. They should not only have the acumen to discover mistakes, but also continuously improve their own management mechanism, alert risks as early as possible before problems occur, and help investors avoid losses.
3. Credit rating agencies can set up some reward and punishment systems to strictly supervise and control credit rating agencies to ensure the normal work of credit rating agencies.

#### ⑤ Pay attention to training professional and moral talents

With the continuous development of China's economic strength, the requirements for credit rating agencies are getting higher and higher, which requires rating personnel to have certain professional knowledge, but also have a good quality not to be deceived by interests. The stronger the professional ability of the rating practitioners and the wider their knowledge, the more accurate the rating results will be and the more authoritative and professional the credit rating agencies will be. Therefore, to cultivate professional and moral talents, we must do the following:

1. Each employee participating in the rating work must have a certificate of relevant work, raise the threshold for credit rating agencies to recruit, and ensure the normal work of credit rating agencies.
2. Regularly or irregularly check the professional knowledge and work of rating participants, which not only can discover the problems that may exist before, but also is more conducive to the accuracy of rating results.
3. Convening regular seminars on credit rating and allowing more rating participants to communicate can not only train many professional talents, but also help promote the development of credit rating agencies.

## 5. SUMMARY

In the past few decades, the importance of credit in the economic system has become more and more prominent. All successful enterprises are based on honesty in the process of operation. Over the years, credit rating agencies have also gradually joined the ranks of financial market quasi-regulators. During this period, there are problems such as weak supervision, low market demand, weak core competitiveness and credibility, and the professional competence of rating practitioners to be improved. For the healthy development of credit rating agencies, China's rating business should start with the government and relevant departments, greatly strengthen the supervision of credit rating agencies, formulate unified credit rating standards, improve the quality of credit rating services, and enhance its core competitiveness and credibility. Only in this way can China establish its own unique credit rating agencies. As China's economic capacity continues to increase and the latest "the belt and road initiative" policy is proposed, it is believed that China's credit rating agencies will definitely play an important role in the future development.

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