

July 18, 2018

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Russian market reputation is the key criterion used when choosing a rating agency

A Russian rating industry survey

- **ACRA has conducted its third annual Russian rating industry survey.** This year, the survey was carried out after the expiration of the transitional period in the national rating industry (July 13, 2017).
- **88% of respondents admitted that they trust the ratings assigned by agencies operating in Russia.** It is a maximum level of trust demonstrated over the past two years. Ratings are most trusted by those who use ratings assigned under both national and international rating scales. In general, financiers increasingly apply ratings under both scales as complementary tools in making investment decisions.
- **Stricter state regulations and correct risk assessments of rated issuers are the key drivers of trust.** Over the past year, ratings assigned by agencies operating in the Russian market have gained trust among 42% of respondents, vs 30% in 2017 and mere 8% in 2016. The main drivers undermining the trust include credit risk underestimation, slow responsiveness and declining competitiveness in the Russian market. However, the share of respondents who believe that the current level of competitiveness in the rating industry pushes down the quality of ratings has declined.
- **Dissatisfaction over credit ratings penetration in the Russian market has declined over the past year.** The decline mostly relates to those who apply ratings under the national scale only. Sectors least covered by ratings are construction and real estate, agro-industry, and IT and media.
- **Russian market reputation has become the main selection criterion applicable to rating agencies.** Last year, respondents pointed to the equal importance of reputation on the national and global markets.

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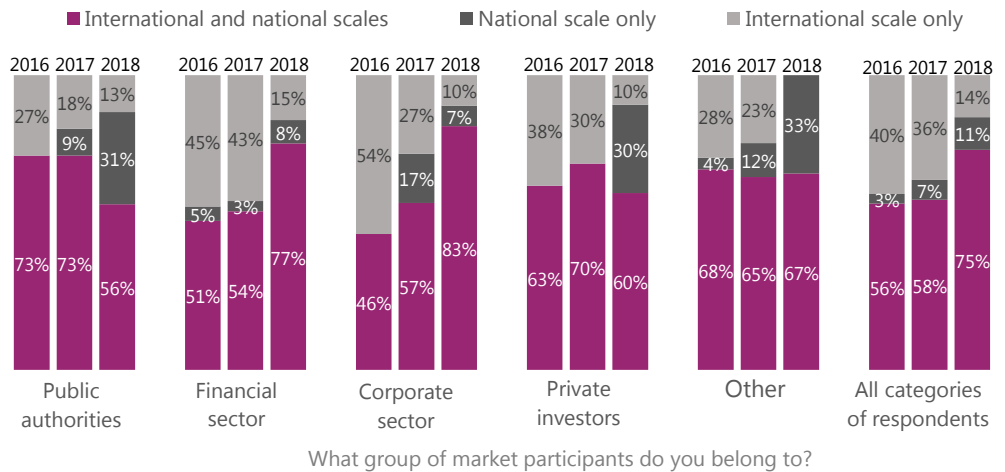
About 88% of financial market professionals trust ratings assigned by agencies operating in Russia

For more information see [Financial market participants want more credit ratings](#) dated May 29, 2017 and [Regulation has made ratings more credible in Russia](#) dated June 16, 2016.

The share of financial market participants who trust credit ratings assigned by agencies operating in the Russian market has grown from 56% to 88% over the last year (Fig. 2), including 22% who "trust" and 66% who "probably trust". This is a maximum level of trust over the last two years. The level of trust has increased most in those respondents who uses ratings assigned under both national and international scales.

In general, financiers increasingly apply ratings under the both scales as complementary tools in making investment decisions. Ratings assigned under the both scales have become more in demand in the market (from 58% to 75%, Fig. 1). National ratings have become more popular (11% against 7% last year), unlike international ratings that have lost in popularity among each group of respondents.

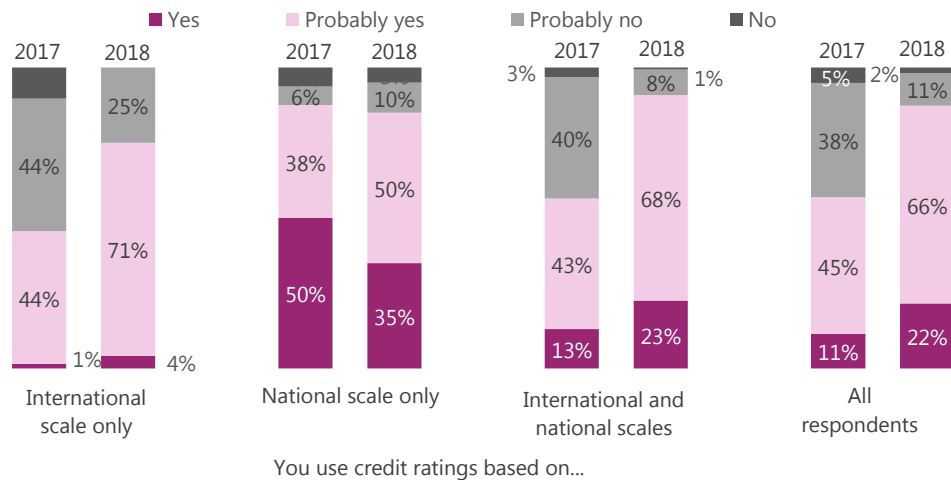
Figure 1. You use credit ratings based on...



Source: ACRA estimates

Figure 2. Do you trust ratings assigned by agencies operating on the Russian market?¹

ACRA conducted the survey among financial market participants between April 3 and June 22, 2018, interviewing 224 respondents, with 70% of them representing the financial sector, 15% – the corporate sector, 8% – public authorities, 5% – private investors, 3% – other sectors (200 / 154 respondents participated in the 2017 / 2016 surveys).



Source: ACRA estimates

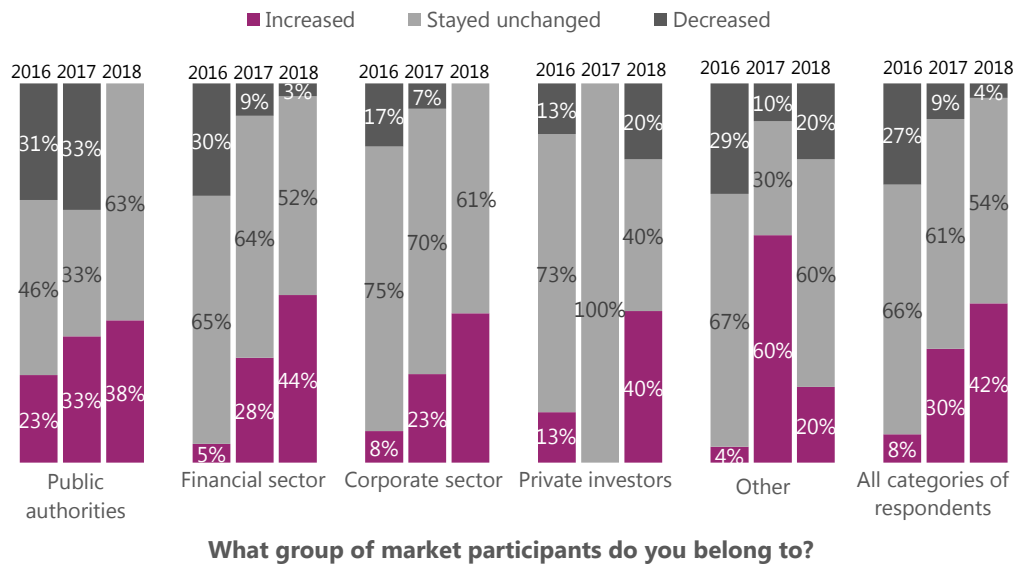
¹ The question was not included in the 2016 survey, therefore, only two last years were compared.

Stricter state regulations and correct risk assessments are the key drivers of trust

42% of respondents indicated that their trust in the assessments made by rating agencies operating in the Russian market have grown (Fig. 3). For comparison: in 2017, the share of such respondents was 30%, and in 2016 — 8%. The maximum growth has occurred among financial sector players (44%), private investors (40%) and corporates (39%).

July 13, 2017, the transformation period of the Russian rating industry ended. 40% of respondents indicated that the state control tightening has driven up their trust (Fig. 4). Another 36% indicated correct risk assessments as such driver.

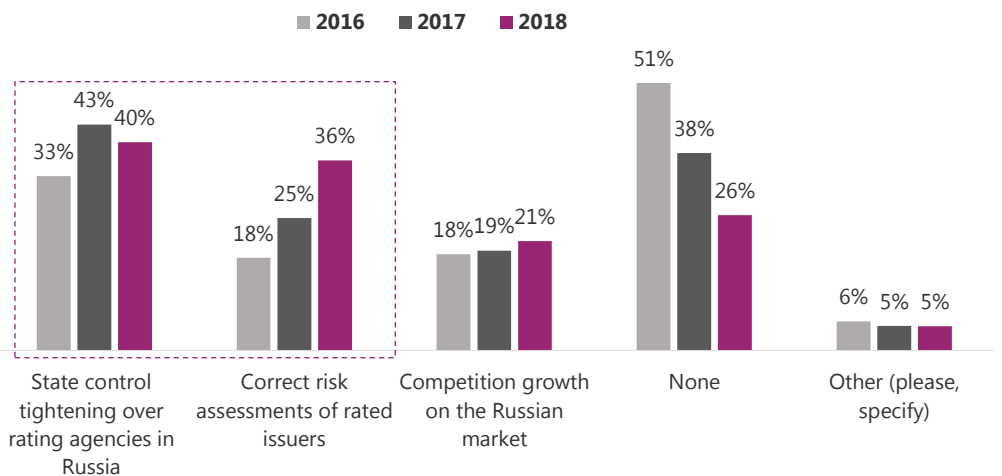
Figure 3. Over the last year, your confidence in credit ratings assigned by agencies working on the Russian market...



Source: ACRA estimates

Figure 4. What events occurred over the last 12 months that helped increase confidence in ratings assigned by agencies operating on the Russian market? (multiple answers were allowed)

Fig. 4 shows the proportion of those who answered the question. Respondents were allowed to tick more than one answer, so that the sum exceeds 100%.



Source: ACRA estimates

Third year in a row, the participants have been most concerned about the underestimation of credit risk and the belated response (53%) of rating agencies operating in the Russian market (Fig. 5). However, the percentage of participants who responded so in the previous two years was significantly higher (59% in 2017 and 66% in 2016). The second most important event, which aroused concerns in respondents, is lower competition in the Russian market (28%). However, the share of such respondents has decreased over the past year from 30%. In general, this year, survey participants are less frequently respond that the current degree of competition in the market negatively affects the quality of ratings (42% vs 51% a year ago, Fig. 6).

Figure 5. What events occurred over the last 12 months that could challenge the objectiveness of ratings assigned by agencies operating on the Russian market? (multiple answers were allowed)

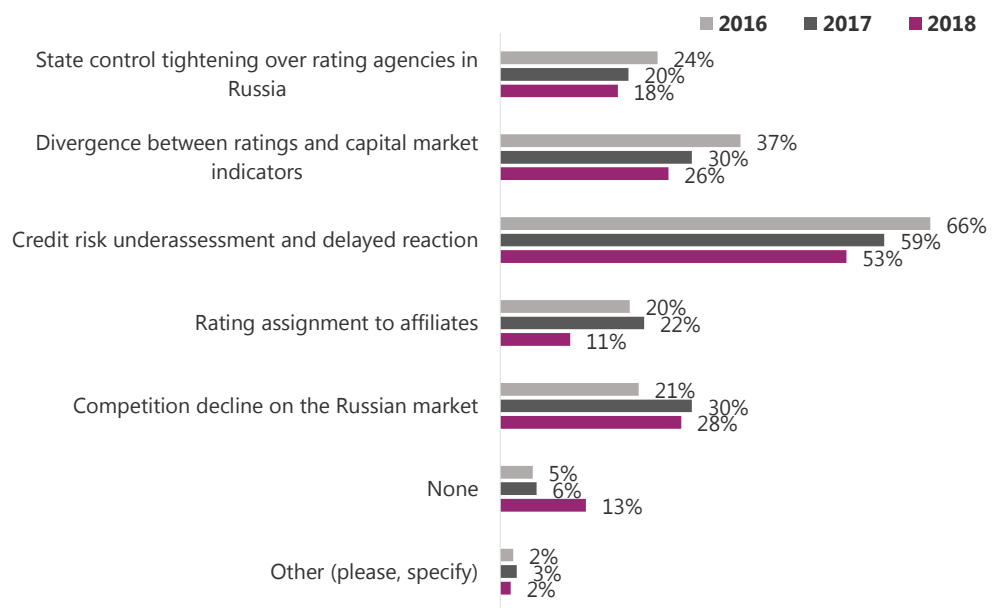
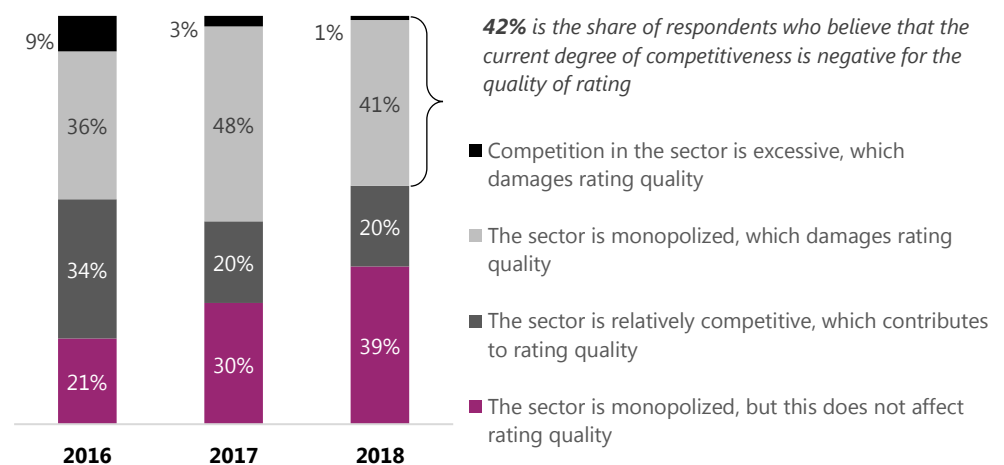


Fig. 5 shows the proportion of those who answered the question. Respondents were allowed to select more than one answer, so that the sum exceeds 100%.

Source: ACRA estimates

Figure 6. Could you gauge competitiveness in the Russian credit rating sector and assess whether it contributes to rating?



Source: ACRA estimates

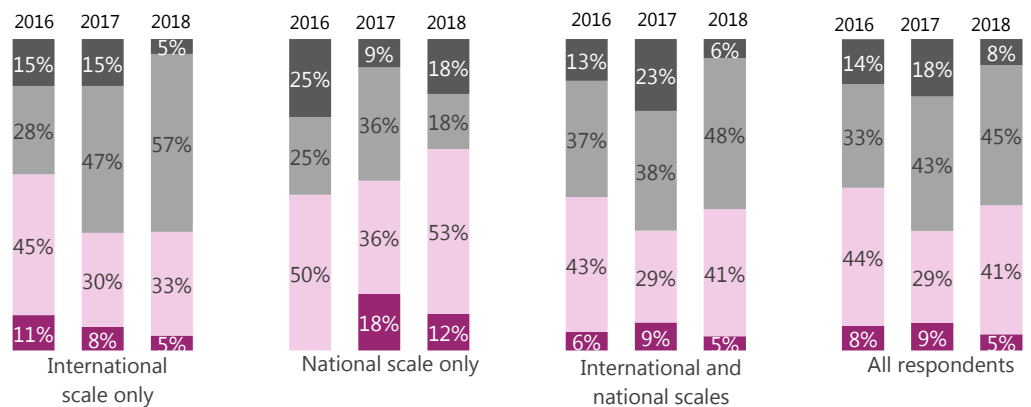
Satisfaction with rating penetration in the Russian market has grown

Over the past year, the proportion of respondents who answered that they are satisfied with the degree of rating penetration in the Russian economy has increased from 38% to 46% (Fig. 7). The greatest increase in the degree of satisfaction occurred in those who focus on ratings assigned under the national scale only (from 54% to 65%). Although the overall level of dissatisfaction has decreased over the past year, it still has not reached the 2016 figure.

Most often, the participants indicate a lack of credit ratings in companies operating in the construction and real estate sector (42%), agro-industry (31%), retail sales (27%) and IT and media (27%); less often — in the oil and gas industry (8%), telecommunications sector (8%) and chemical industry (11%).

Figure 7. Are you satisfied with credit rating coverage of the Russian market?

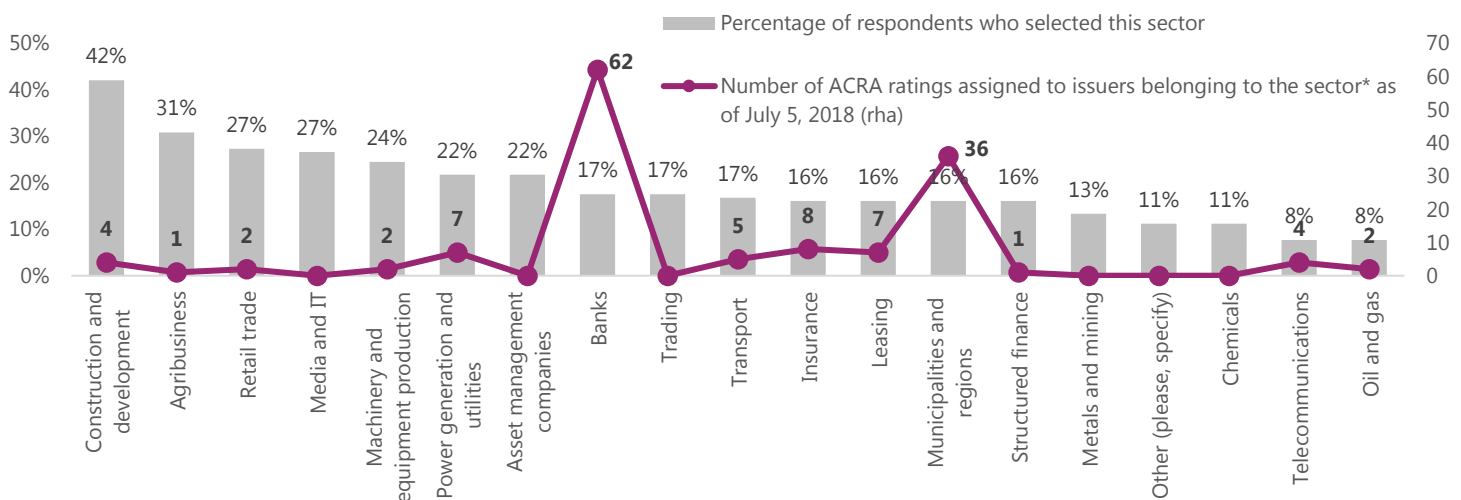
- No, as entire sectors of the Russian economy are not covered by credit ratings
- Probably no, as only the largest issuers have credit ratings
- Probably yes, as all largest issuers are rated
- Yes, issuers I am interested in always had credit ratings



You use credit ratings based on...

Source: ACRA estimates

Figure 8. In case a company you were interested in was not rated, which sector did such company belong to? (multiple answers were allowed)



* Excluding withdrawn ratings. For structured finance, the number of issue ratings is indicated.

Source: ACRA estimates

The main criterion for selecting a rating agency is its business reputation in the Russian market

A year ago, participants responded that the reputation in the Russian and global markets is equally important for a rating agency: both criteria scored 4.2 points (Fig. 9). This year, for the first time, the respondents named the reputation in the Russian market as the main criterion used when choosing a rating agency. The indicator scored 4.5 points, while the international reputation scored only 4 points.

The second most important factor is pricing (3.7 points). Its relevance has been growing in the past three years, but, on the other hand, more and more respondents say that the price of credit rating agencies' services is generally available to Russian issuers (79 against 70% a year ago, Fig. 10). The share of respondents who are generally satisfied with the level of information disclosure by rating agencies has also become higher. It has grown from 49% to 82% over the past three years (Fig. 10).

Figure 9. Name the most important criteria for selecting a rating agency (5 – maximum importance, 0 – minimal importance)

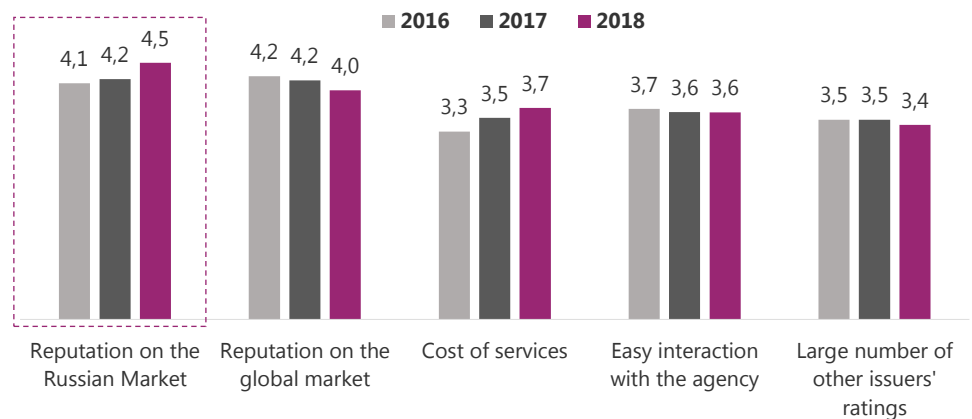
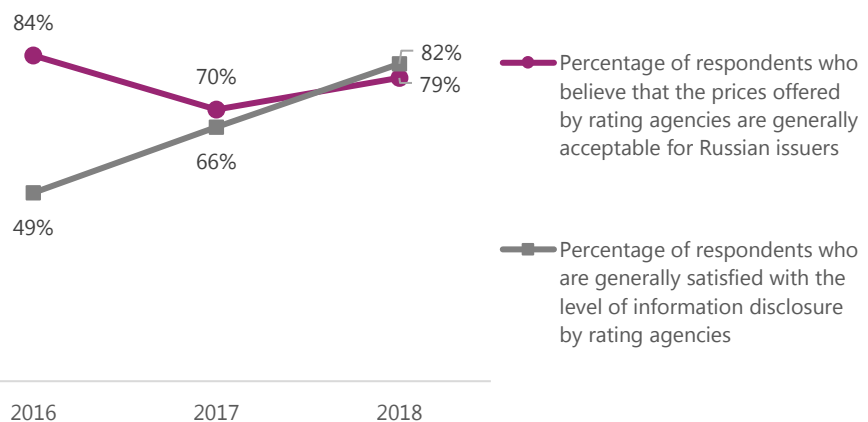


Fig. 9 shows the average score.

Source: ACRA estimates

Figure 10. Share of respondents who believe that the prices offered by rating agencies are generally acceptable for Russian issuers has increased over the past year.



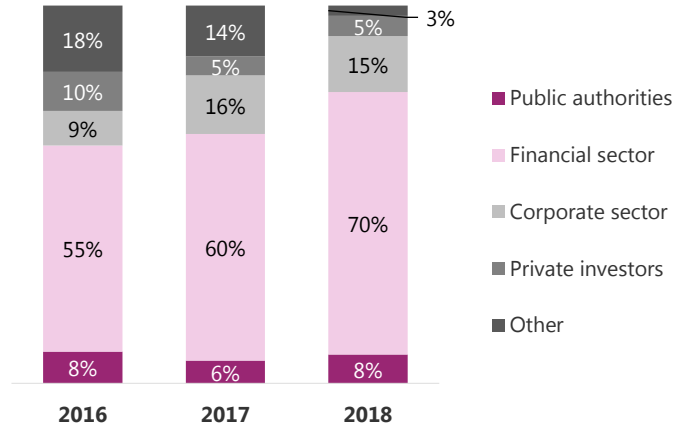
In Fig. 10, the share of respondents who believe that the prices offered by rating agencies are generally acceptable for Russian issuers is indicated without those respondents who have no pricing information (see Appendix).

Source: ACRA estimates

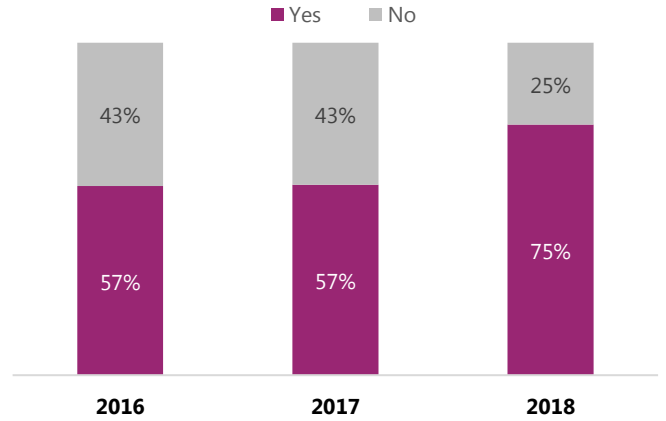
Appendix. Russian rating sector evaluation survey results

1 Respondent profile

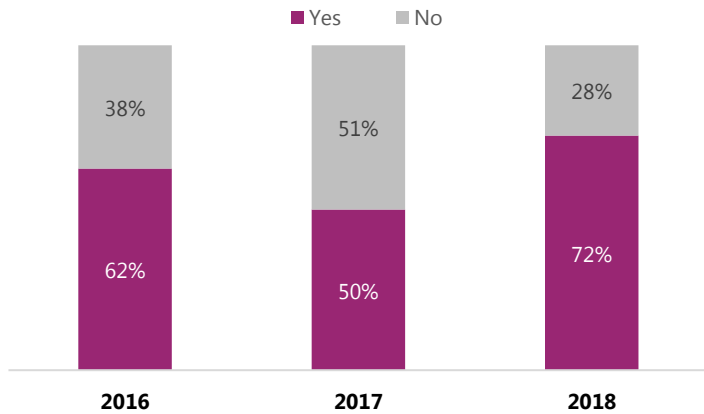
1. What group of market participants do you belong to?



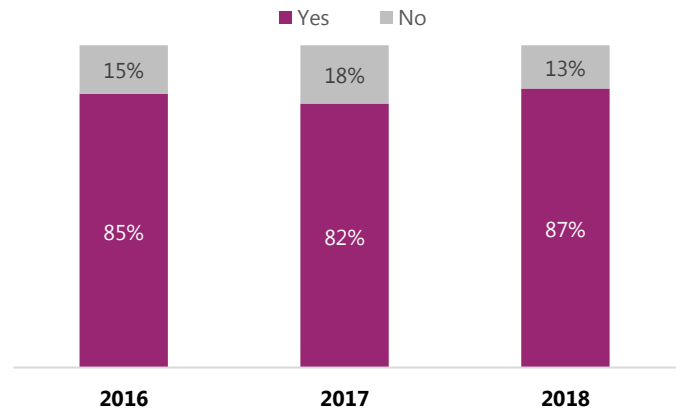
2. Is the company you represent a rating object?



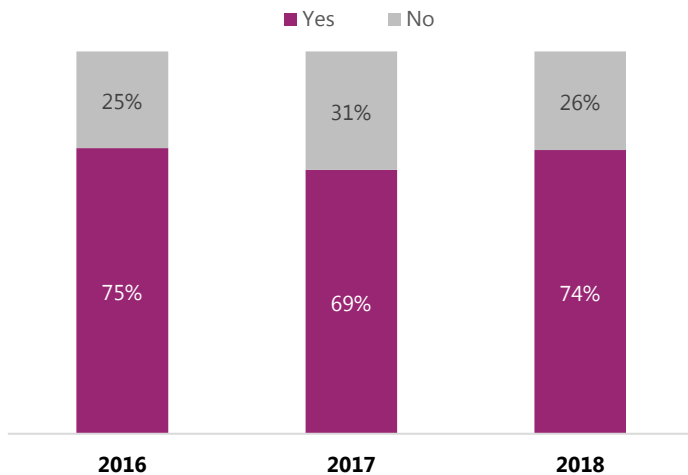
3. Have you ever worked with rating agencies for obtaining a credit rating?



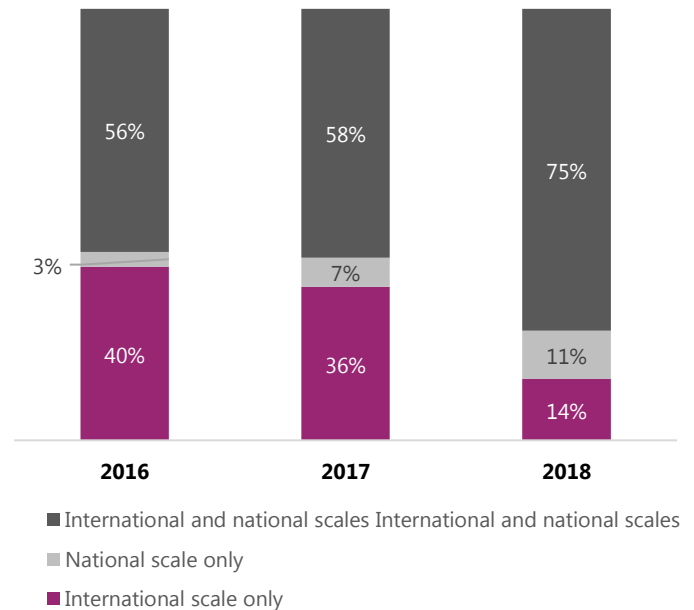
4. How well do you believe you know the field of credit ratings? For example, do you know the difference between international and national rating scales?



5. Do you take credit ratings into account while making investment decisions?

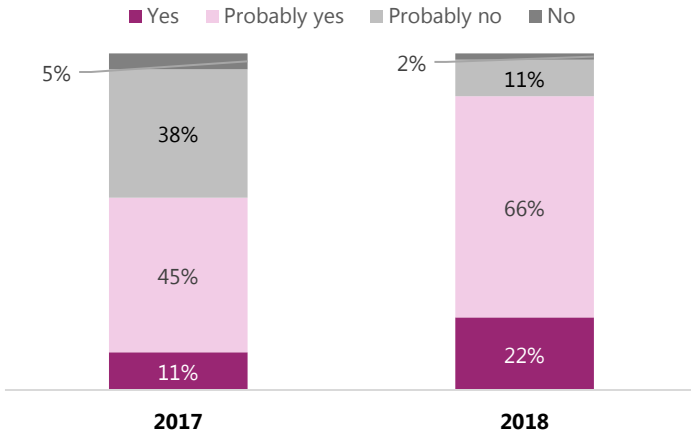


6. You use credit ratings based on...

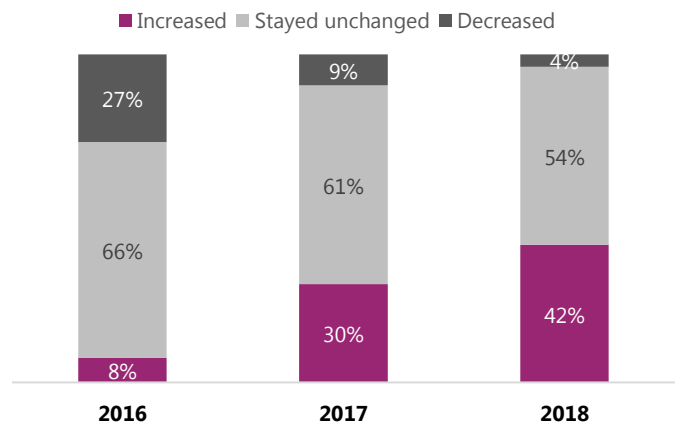


2 A correct estimate of future risks

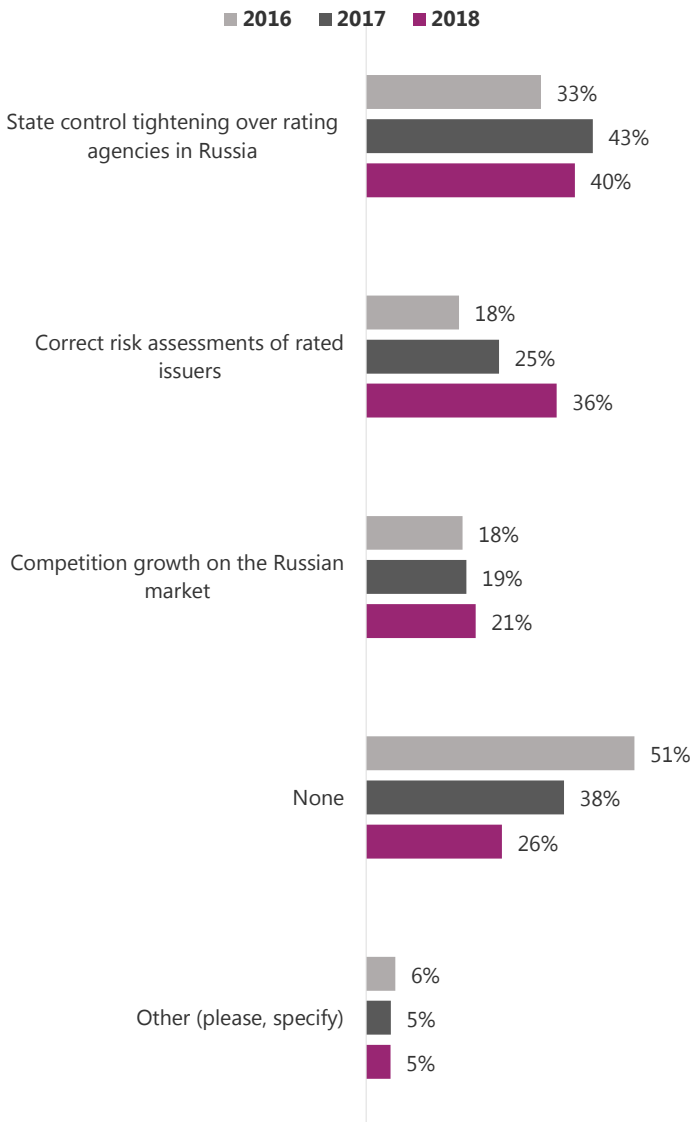
7. Do you trust ratings assigned by agencies operating on the Russian market?²



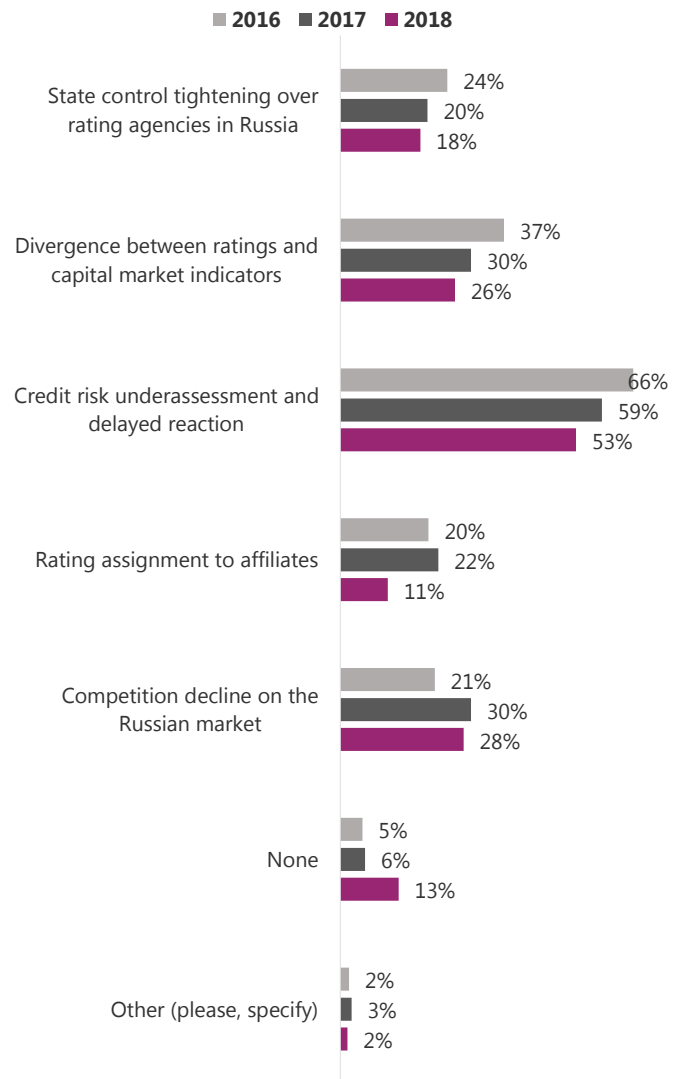
8. Over the past year, your confidence in ratings assigned by agencies operating on the Russian market...



9. What events occurred over the last 12 months that helped increase confidence in ratings assigned by agencies operating on the Russian market? (multiple answers were allowed)

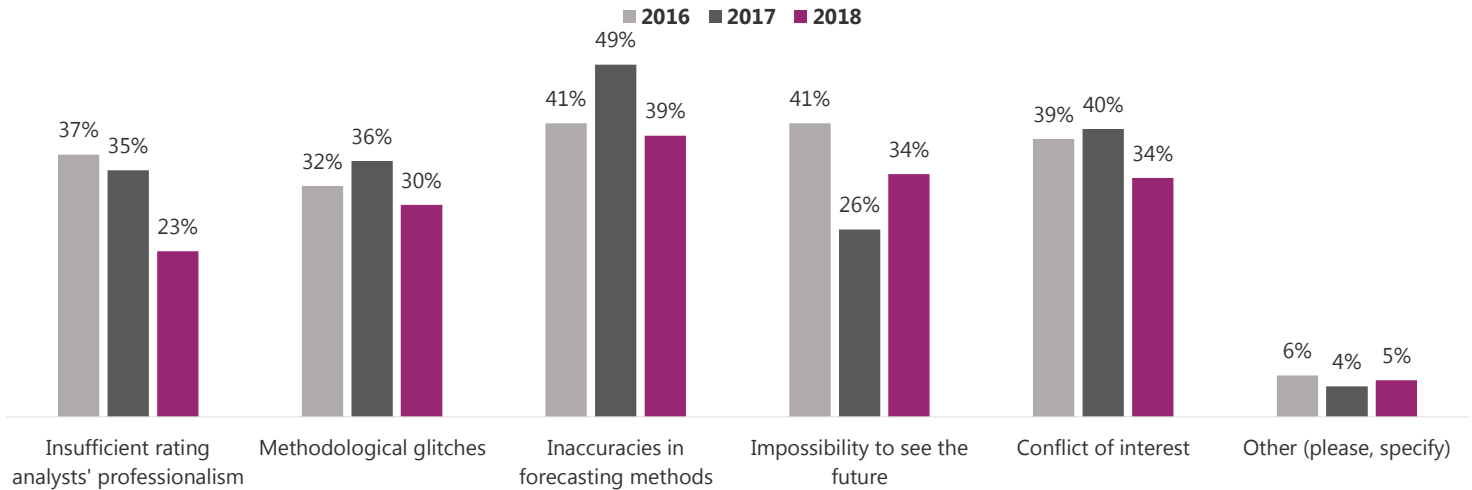


10. What events occurred over the last 12 months that could challenge objectiveness of ratings assigned by agencies operating on the Russian market? (multiple answers were allowed)



² The 2016 survey did not feature this question.

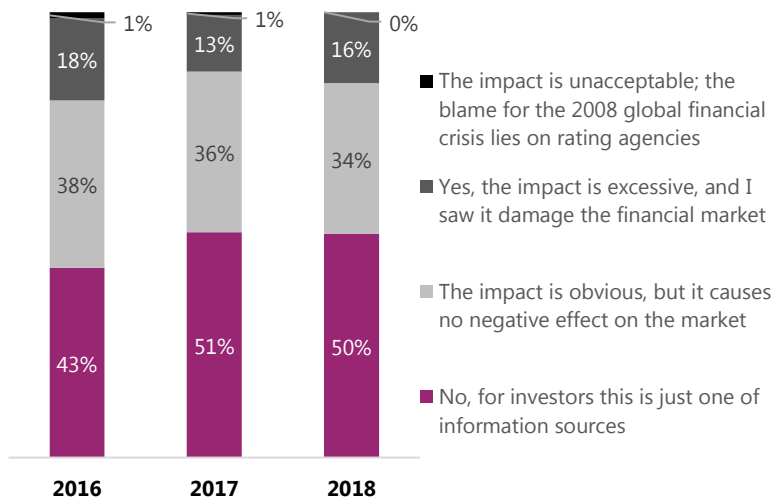
11. What would you attribute to rating agency mistakes that you know of in credit risk assessment? (multiple answers were allowed)



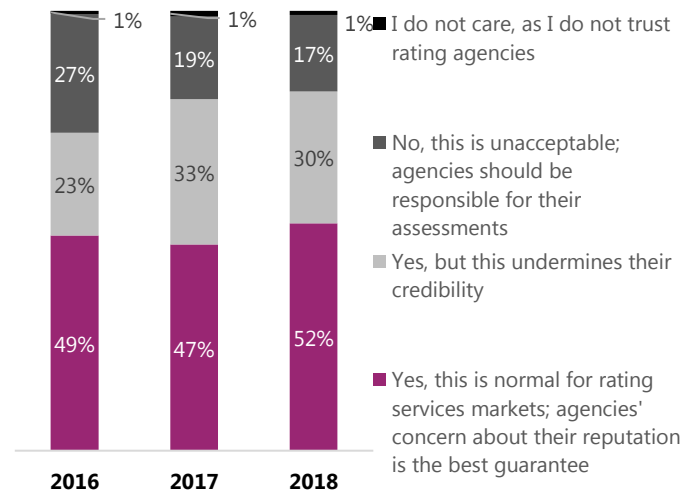
3

Strong influence on the market with substitution of state functions

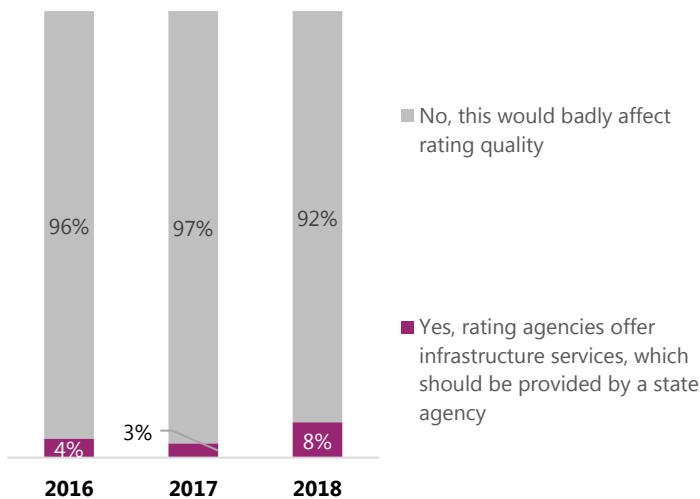
12. Do you believe that ratings have an excessive impact on the Russian financial market?



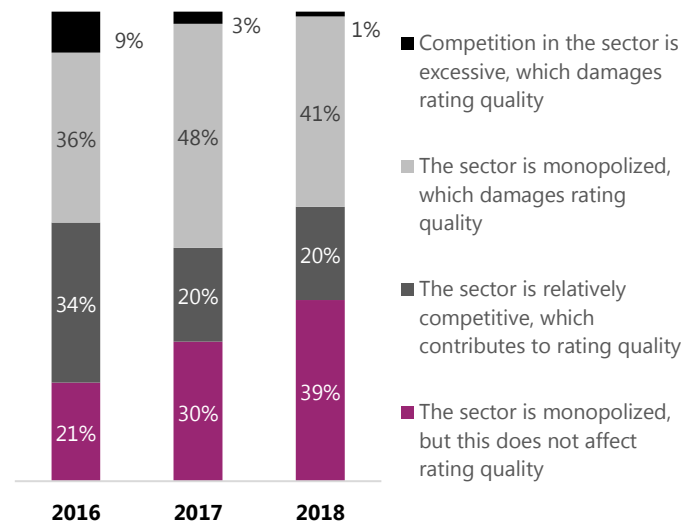
13. Is it acceptable for you that ratings represent only an opinion of a rating agency and formally the latter is not responsible for them?



14. If you believe that rating agencies have a significant influence and yet formally are not responsible for their assessments, then, perhaps, the rating function must be reassigned to a state authority?



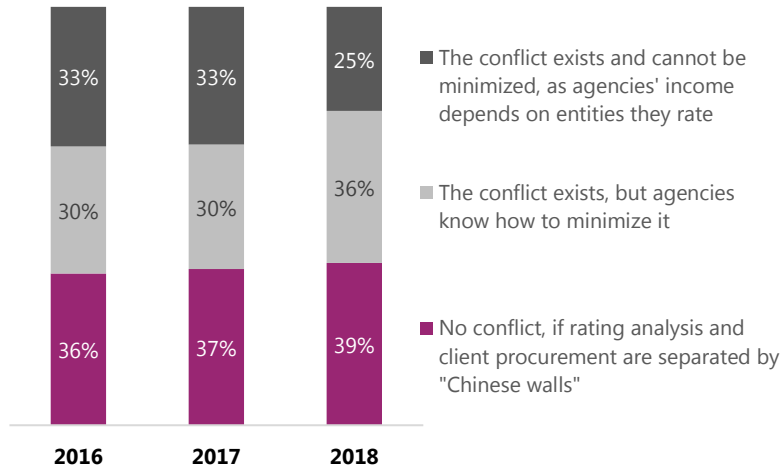
15. Could you gauge competitiveness in the Russian credit rating sector and assess whether it contributes to rating quality?



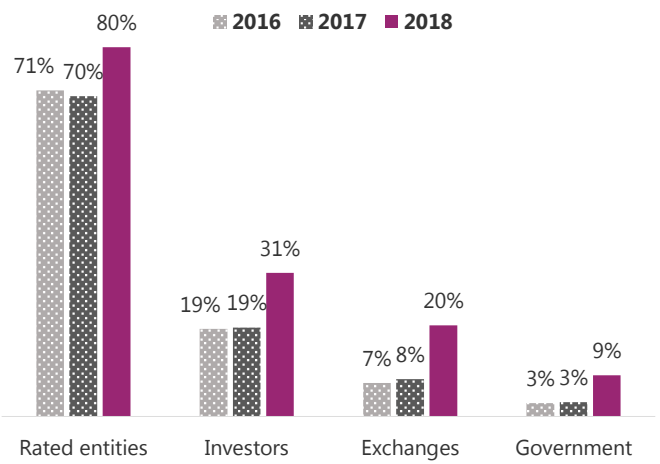
4

A "paradox": ratings are used by investors, but issuers pay for them

16. Do you see a conflict of interest in the fact that issuers pay for their ratings themselves?



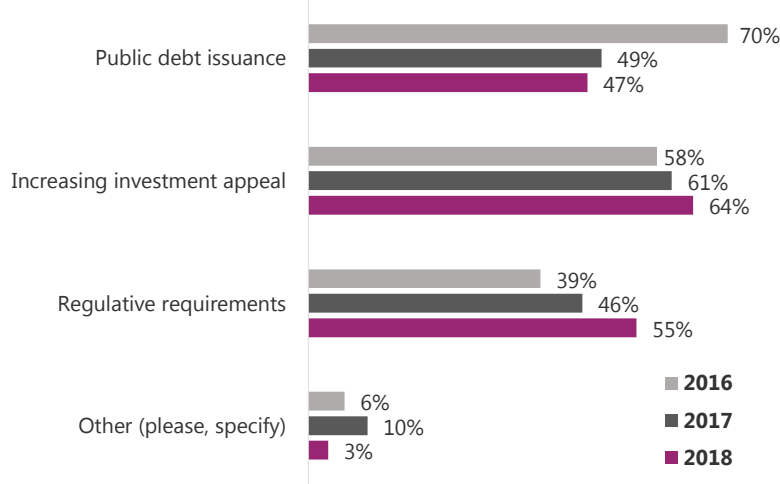
17. Who should pay for credit ratings? (multiple answers were allowed³)



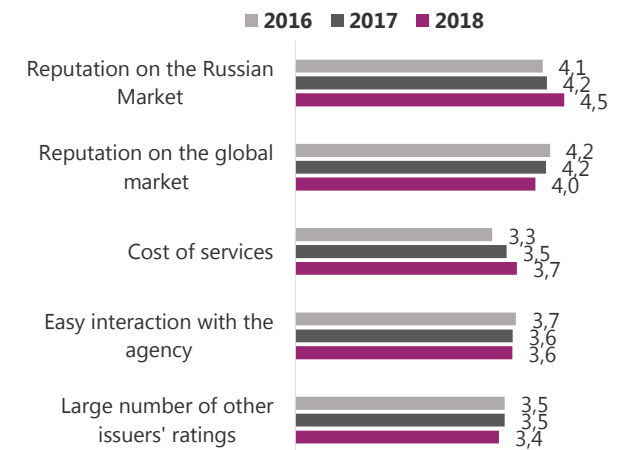
5

Availability of credit ratings

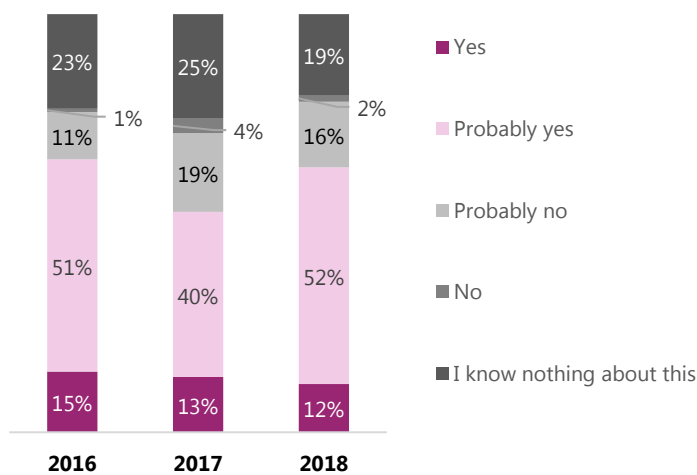
18. If your entity has a credit rating, the impetus for obtaining it was... (multiple answers were allowed)



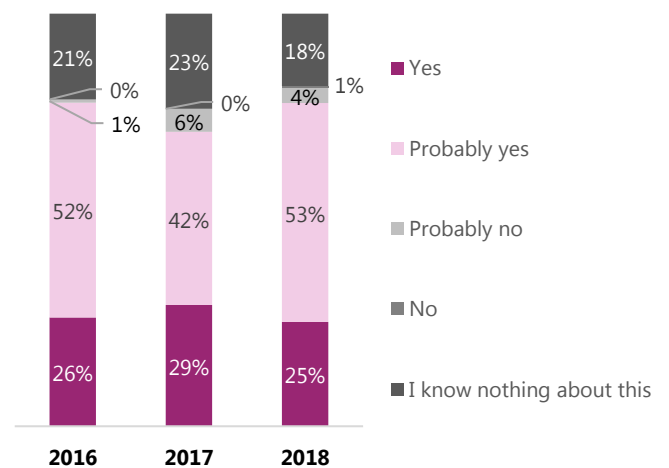
19. Name the most important criteria for selecting a rating agency (5 – maximum importance, 0 – minimal importance)⁴



20. Do you think that services provided by credit rating agencies are affordable for Russian issuers?



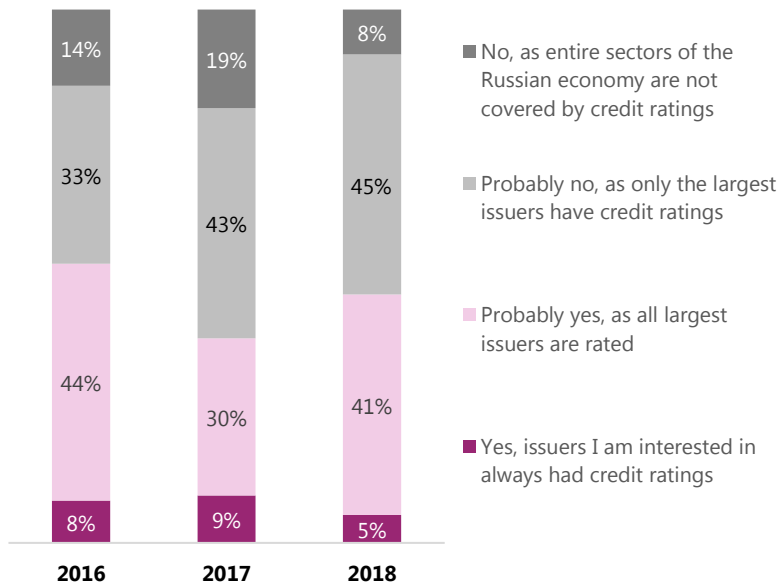
21. Do you find rating agencies' requirements for obtaining a credit rating acceptable?



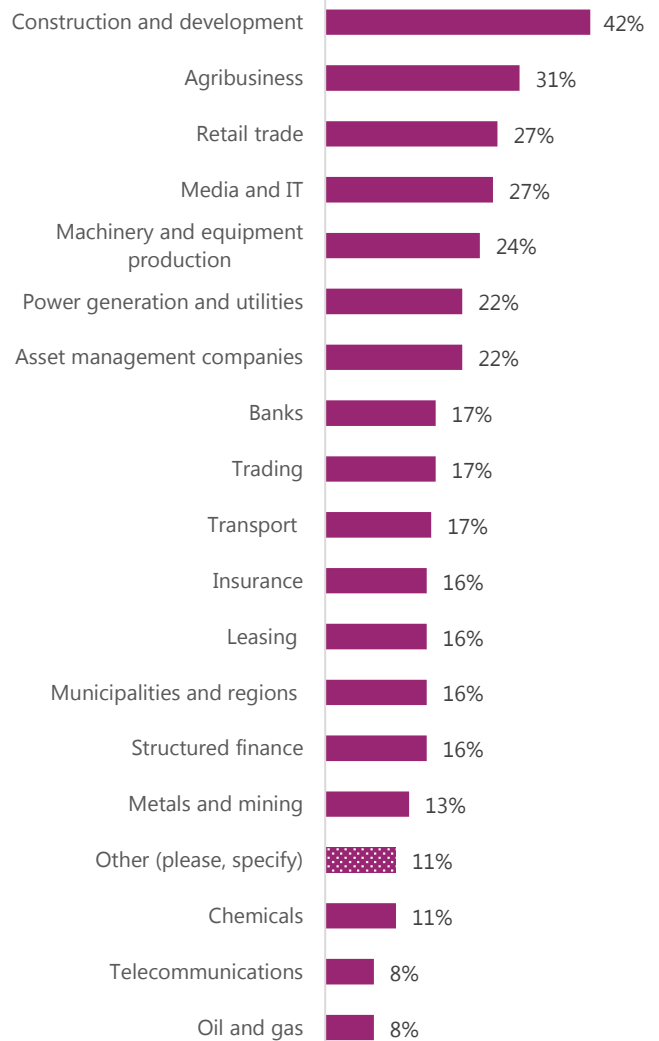
³ In the 2016 / 2017 polls, respondents were not allowed to select more than one answer.

⁴ The figure shows the average score.

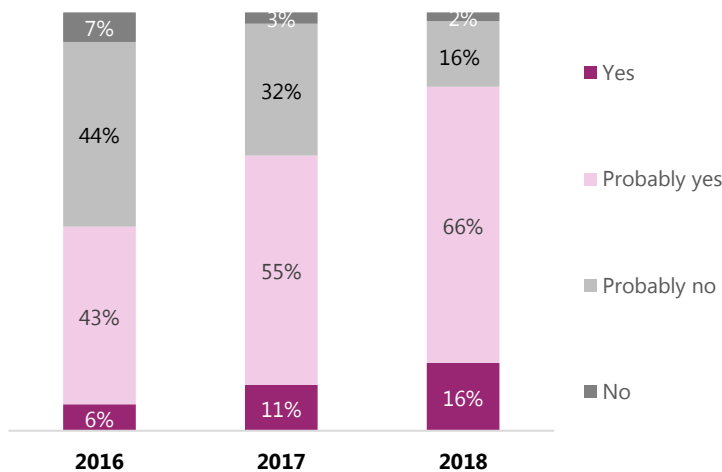
22. Are you satisfied with the credit rating coverage of the Russian market?



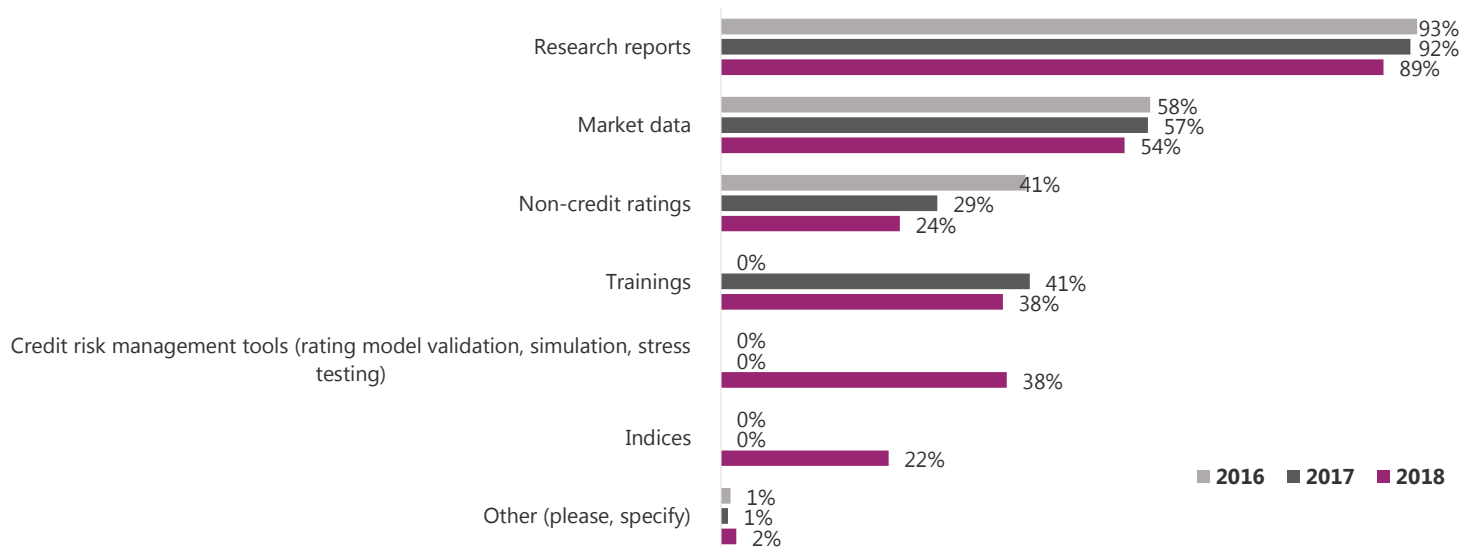
23. In case a company you were interested in was not rated, which sector did such company belong to? (multiple answers were allowed)



24. Are you satisfied with rating agencies' information disclosure?



25. What extra services and products by rating agencies⁵ do you use or would like to use? (multiple answers were allowed)



⁵ Options "Credit risk management tools (rating model validation, simulation, stress testing)" and "Indices" appeared in 2018.

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