An Exploratory Study on Bangladesh's Emerging Credit Rating Industry

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ABSTRACT

A key dilemma for credit rating agencies (CRAs) is how they act during the time of rating (whether neutrally or not) as their principal sources of revenue come from whose products they are rating (client/issuers). The severe competitions among the CRAs infuse them to grab the clienteles and retain them even by giving favorable rating. This very issue elicits the possibility of existence of conflict of interest among the CRAs and the issuers. This further ignites the unhealthy competition among CRAs , particularly in a very small country like Bangladesh where the number of CRA is not paucity in numbers (specifically eight CRAs in Bangladesh whereas in USA, the biggest corporate space of the world has only three major CRAs and only the two- Moody's and S&P are dominant). The ratings provided by CRAs are now challenged very frequently and they are vehemently commented. The very common observation about the rating is that CRAs are more relaxed during the boom years and vice versa. And the paradox of competition among CRAs reduces the efficiency and quality of ratings since it facilitates ratings shopping for the clients/issuers and results in excessively high reported ratings.

Key words: Credit Rating, Credit Rating Agencies (CRAs), Rating Shopping, Barriers to entry for CRAs.

BACKGROUND AND GENESIS OF THE STUDY

CRAs should rate the financial instruments issued by corporate houses like corporate bonds. But, the scenario of Bangladesh is entirely different as due to lack of credit rating opportunity, particularly the financial instruments of the issuers/companies. Rather the CRAs rate the commercial banks and their borrowers. And, then these commercial banks and their clients promote their business by displaying their credit ratings in all of their promotional materials. Bangladesh has had difficulty improving the performance of its corporate and financial markets, whereas, simultaneously Bangladesh requires a vibrant bond market where the corporate houses can raise flexible and low cost capital and CRAs would play their due role, credit rating to these issuing companies. Rather, CRAs are asked the question regarding the worth of their rating. CRAs reliance on fees from the issuers, and investors trust on rating lead to systematic consequences as the issuers looking to benefit from the mispricing of their issues could have lead to substantial ratings inflation and inefficient investment decision. Even CRAs are challenged regarding the worth of their rating. In this prevailing situation, an exploratory study on Bangladesh credit rating industry is very sensible.

RATIONALE OF THE STUDY

Bangladesh has long been considered a country of enormous opportunity. it is one of the very powerful members of the next eleven economics comprising of Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea and Vietnam (known by N-11). N-11 have been the central point of attention to business community, policy makers, researchers and academics due to their potential of becoming , along with the BRICS countries (Brazil, Russia, India, China , and South Africa), the world's largest economies in the 21st century (The Economist July 27, 2013). But recent years numerous factors have prevented in achieving the full potential of Bangladesh, among these factors , lack of diversity in export, failure in attracting adequate foreign direct investment(FDI), lack of governance, unregulated financial sectors are to name a few of obstacles. Though Bangladesh should be one of the world's most desired investment locations, it is not performing well in attracting FDI. It's having only about 1.5 billion of FDI now whereas its neighbor India is doing fabulously well in this respect. According to a Financial Times study between January and June 2015, India generated $31 billion of FDI, surpassing China ($28 billion) and USA ($27 billion). The reasons behind Bangladesh's weak position are manifold but out of many, governance is a very important issue in this regard. Governance is really a very big issue particularly for any developing country like Bangladesh, which is heading towards achieving the status of middle income country by year 2021. Corporate Bangladesh is not well structured and governed. Despite the quandary in corporate sector, it is mainstay for promising Bangladesh.

The topic of the discourse is very relevant as rating is one of the independent oversight or supervision tools. There is a strong argument that CRAs are powerful because government make them so, and have turned rater into surrogate regulators, forcing the business community to obtain and act in accordance with ratings (Kerwer, 1999). If this is the case, or even would be case, then what's about the situation of credit rating industry of Bangladesh? But, it is still unattended by any academic discussion about the credit rating agencies in Bangladesh, their inception, current status and impact of ratings. This study was embarked to pursue the objectives to explore the rating agencies in Bangladesh, what is rating in practice and its current state.

PROBLEM STATEMENT

The best credit rating score and the worst credit crunch comes simultaneously in Bangladesh! In 1996, the 42 year old Dhaka stock exchange becomes a hot air balloon as for an example, a stock with Taka 100 face/par value was sold at Taka 26,000 in the month of July, but just right after a week, the fuss of hot balloon reached to rock bottom as the price got down to below taka 1,000.

That all made for a simple, clichéd narrative; uncouth and ambitious foreigners arrived in Dhaka, made buckets of money and lots of enemies within before it all ended in tears! That means the companies with smooth window dressed earnings tried to mean that their companies are the best ones evidenced by superior credit ratings, the problems are beyond the outside edge of their companies.

Exactly identical echo uttered in 2010 in the advent of both summit and nadir of indices of Dhaka and Chittagong Stock Exchanges when a share with face/par value of Taka 100 reached at Taka 125,000 and fall down to Taka 12,000 within a week. Besides, recent financial scandal contagion engulfs all the corporate skyline of Bangladesh and a glimpse is as follows:

In May 2012, a report from the Bangladesh Bank revealed that the Ruposhi Bangla Hotel Branch of the state run Sonali Bank , Bangladesh Government's largest commercial bank , illegally distributed (as loans) Taka 36.48 billion (US$460 million) to the borrowers that would convert the loans as bad (fake) during 2010 to 2012. The biggest chunk of TK 26.86 billion (US$340 million) went to the notorious Hall-Mark Group. Other companies that benefited included: (1) T and Brothers, Taka 6.10 billion; (2) Paragon Group, Taka 1.47 billion, (3) Nakshi Knit, Taka 660 million, (4) DN Sports, Taka 330 million; (5) Khanjahan Ali , Taka 50 million.

These above noted issues are considered to be the country's largest banking/financial scandal where both the banks and their borrowers were rated by the credit rating agencies before the inception of making the loans. It dwarfs preview fraud cases, such as a Taka 6.2 billion Letter of Credit fraud in Chittagong in 2007, a Taka 5.96 billion fraudulent withdrawal from Oriental Bank in 2006, and a Taka 3 billion forgery scandal in 2002; although it is still smaller than the recent Destiny Group multilevel marketing scam, which is estimated at Taka 45 billion (Farashuddin, 2012).

What happened to those above noted companies whose credit ratings were superior! How do the most notorious companies buy superior credit rating? It is very noteworthy that all these organizations were given loan after they had got their credit ratings with good standing from the credit rating agencies.

The all above noted corporate houses along with all their host banks (that made loans to them) standing with very good credit ratings from the Credit Rating Agencies (CRAs) but they fumbled down to the ground by jeopardizing the lives of millions of stakeholders (depositors, investors, lenders, creditors, government and all the others as well).The events stated above ignite the interest of the author to pursue this study.

OBJECTIVE OF THE STUDY

To explore about development of credit rating agencies in Bangladesh and their current standing;

METHODOLOGY OF THIS EXPLORATORY STUDY

This study on credit rating agencies in Bangladesh is purely an exploratory one, as no comprehensive study has been conducted of this nature in Bangladesh.

DEVELOPMENT OF CREDIT RATING AGENCIES IN BANGLADESH

Credit Rating Agencies in Bangladesh

History of domestic credit rating in Bangladesh

The history of domestic credit rating in Bangladesh is not old at all; rather it was given birth in 1996 but the first operating license offered in 2002. Prior to this time, the lingo, “Credit Rating” was a text book phrase in Bangladesh.

Conception and Inception

The first ever Euromoney Conference was organized in Bangladesh in 1994, where a large number of international investors and good number of world investment forum members had participated. The participants had concluded as the reason for not receiving desired investment is that Bangladesh was the absence of any rating agency, and even the country had not been rated officially by any international rating agency. In absence of the above , some of the international rating agencies , based on unfounded and partial information , rated Bangladesh as “C”, which meant a highly speculative and risky country for investment. Under the above backdrop, the Bangladesh Securities and Exchange Commission (BSEC) took the initiative to encourage the private sector to come forward to float rating agencies. As part of this initiative, the first ever Bangladeshi credit rating agency was floated in the month of July, 1996 and the name of the agency is "Credit Rating Information and Services Limited (CRISL)".

Regulatory Framework

Up to 1996 there was no regulatory framework for promoting and controlling the operation of rating agencies as there was no credit rating agency in Bangladesh then. The BSEC after reviewing the operating procedure of the regional rating agencies promulgated the "Credit Rating Companies Rules, 1996" in 1996, making it mandatory for the rating agencies to have joint venture with any international rating agency as a part of licensing requirement.

Present Scenario of Domestic Credit Rating Agencies of Bangladesh

Domestic Credit Rating Agencies of Bangladesh

Credit rating agencies perform credit rating assignment of various entities and debt instruments. In Bangladesh they are known as External Credit Assessment Institution (ECAI). Elkhoury [2008] explains that rating agencies fall into the two categories: (i) recognized; and (ii) non-recognized. The former are recognized by supervisors in each county for regulatory purpose. In Bangladesh there are four regulatory authorities: (i) Bangladesh Securities and Exchange Commission; (ii) Bangladesh Bank; (iii) Insurance Development and Regulatory Authority of Bangladesh; and (iv) Association of Credit Rating Agencies in Bangladesh.

These regulatory authorities recognize the following eight local credit rating agencies:

- Credit Rating Information and Services Ltd (CRISL);
- Credit Rating Agency of Bangladesh Ltd (CRAB);
- Emerging Credit Rating Ltd (ECRL);
- National Credit Rating Ltd (NCRL);
- Alpha Credit Rating Ltd (ALPHA);
- WASO Credit Rating Company (BD) Ltd (WASO);
- Argus Credit Rating Services Ltd (ARGUS);
- The Bangladesh Rating Agency Ltd (BDRAL);

International CRAs in Bangladesh

Apart from these Credit Rating Agencies the Bangladeshi Regulatory Authorities also recognize the following international credit rating agencies

- Standard & Poor's (S&P)
- Fitch Ratings
- Moody's Investor Service (Moody's)

Who are the regulators for CRAs in Bangladesh?

For domestic credit rating agencies of Bangladesh, the regulatory agencies and their guidelines are listed below:

In Bangladesh there are four regulatory authorities: (i) Bangladesh Securities and Exchange Commission, (ii) Bangladesh Bank; (iii) Insurance Development and Regulatory Authority of Bangladesh; and (iv) Association of Credit Rating Agencies in Bangladesh.

Key regulator for Credit Rating Agencies is Bangladesh Securities and Exchange Commission (BSEC). BSEC has been one of the prime regulators for CRAs, as they hold the authority to issue license and monitor quarterly to the CRAs, it also oversees the compliance requirement and rules laid down by Credit Rating Companies Rules, 1996.

Limitations of Credit Rating Companies Rules, 1996

Rule VI mentions that the Bangladesh Securities and Exchange Commission (BSEC) has power to cancel or suspend the registration of a credit rating agency if the agency has contravened any provision or has otherwise failed to comply with any requirement of the Bangladesh Securities and Exchange Commission (BSEC) Ordinance, 1996 or any rules given by the Commission if it considers necessary in the public interest to do so. There are many rules in Credit Rating Companies Rules, 1996 which have been made according to international standard practice but which need to be revised or rephrased according to practical scenario of Bangladesh. Hence, it is not possible to fulfill all the requirements of the rules and contravention of such rules may make it liable to have registration cancelled. It may be proposed to the Commission to make an amendment to the rules to incorporate more definite and concrete situations where credit rating companies can have their registration canceled or suspended.

No definition/description has been given regarding the compliance report submission in rule IV (g). Compliance issues have not been defined properly and work of compliance officer needs to be addressed more. Professional qualification has not been described in the rules. Such as analyst when reviewing/analyzing or rating a certain company or an industry, their level of qualification has not been described in details. This is a major issue which needs to be addressed in more details.

Regulation for Rating the Insurance Companies

For credit rating assessment of insurance companies, the respective regulatory authority is Insurance Development and Regulatory Authority of Bangladesh (IDRA). To perform credit assessment, credit rating companies can be recognized as a credit rating institution by IDRA. Circular of Chief Controller of Insurance No. 21/21/98-39-76 dated March 27, 2007 requires all general insurance companies to get credit rating assessment every two years. Further to that, a circular issued by

Banking Regulation and Policy Department (BRPD) No.06 dated March 13, 2011 also made it mandatory for general insurance companies to get credit rating assessment.

CREDIT RATING – UNDERLYING CONCEPT AND PRINCIPLES

Concept of Credit Rating and Relevant Issues

Rationale behind Credit Rating

Credit Rating provides various benefits such as it gives insight of financial health of a company. Since financial risk analysis is a major component of a credit rating report, reading this particular section will give the user an idea how sound the financial health of the obligor is. Another benefit of credit rating is that its comparability, if two entities are operating in the same industry; they are rated and the grades are presented to an investor, simply, by taking the grades into account the investor shall understand which entity has higher credit risk. This is why credit rating particularly helpful for an issuer as well with little or no credit history (New Company or a company which never borrowed before), as less well known issuers gains market access by having information and analysis of their credit widely available on comparable basis (Peterson , 2013).

Roy (2005) states that " In May 2003, the Basel Committee on Banking Supervision released its third and final consultative paper on the New Basel Capital Accord, which is meant to replace the 1988 capital adequacy framework by a more risk sensitive approach. One year later , on June 26,2004, central bank governors and the head of the bank supervisory authorities form the G-10 countries endorsed the new framework commonly known as Basel II''.

The Basel Committee has developed two approaches for calculating regulatory capital for risk, the so-called "standardized approach" and "internal ratings based approach" (hereafter IRB). The standardized approach uses external rating such as those provided by ECAI to determine risk weights for capital charges, whereas the IRB allows banks to develop their own internal ratings for risk weighting purpose subject to the meeting of specific criteria and supervisory approval. Large International Financial Institution usually opts for IRB however the small and medium financial institution does not have necessary funds to adapt IRB so it usually chooses standardized approach to calculate regulatory capital risk. In compliance to international standards Bangladesh Bank has made the guidelines statutory for all scheduled banks in Bangladesh form January 01, 2010. Basel II attempts to integrate Basel capital standards with national regulations by setting the lowest capital requirements of financial institutions with the goal of ensuring organization or institute iniquity.

What is Credit Rating?

Credit rating is the assessment of the credit worthiness of a particular borrower with reference to a particular debt or financial obligations. Ability to pay debt is known as “creditworthiness”. Credit rating usually appears in from if alphabetical letter grades such AAA, A+, BBB etc. Usually a credit rating grade is inversely proportional to default risk which means higher the grade lower the default risk. A credit rating can be assigned to any institution that intends to borrow money; any individual, government, proprietorship business, partnership business, company or a government institution may opt for credit rating for the propose of borrowing funds. These are known as entity ratings. Credit rating is also applicable for the issuance of common stock. Typically the entity who is applying for credit rating is known as obligor.

As article of S&P states “From a slightly different perspective, credit ratings are a specialized type of securities research, similar to what independent securities analysis and analysts at sell side firms produce. Like such research, credit ratings embody forward looking opinions designed to contribute an investor’s decision making process. However, instead of providing opinions about the overall investment merit of specific securities or types of securities (which embodies many different dimensions, including creditworthiness), credit rating addresses creditworthiness only. Accordingly, credit rating agencies operate only in the fixed income arena, while securities analysis covers the entire landscape of the capital markets. In addition Peterson (2013) states that an ideal credit rating should have three major attributes: (i) transparent, (ii) comparable and (iii) forward looking. But, what’s the scope of credit rasting? This is immensely important as sometimes it is assumed that ratings are primarily based on publicly available information (Larrain et al. 1997)

What Credit Rating is not?

Credit rating only takes financial risk into account and does not consider other risks. One should not use credit rating as investment advice and should not hold it as recommendation to buy sell or hold securities. According to the president of Standard & Poor’s Douglas L Peterson “Credit Rating addresses only one aspect of a debt instrument-credit quality”. Elkuhoury (2008) explains about two types of CRAs and they are recognized and non-recognized and the recognized status is given by the regulators of respective country.

Credit Rating vs. Auditing

Although there are some similarities but there are also quite substantial differences between these two assignments. Credit rating is a continuous process. Upon assigning as final credit rating grade to the firm or security, the CRA can re assess the grade anytime it seems fit, i.e. when certain circumstances does not reflects the assigned grade whereas the assignment of audit is reflection of certain period of time which has already passed. With the conclusion of the period, the audit examines the financial statement of the entity and states whether the true position of the company is reflected within the financial statement. Both credit rating and audit have their own limitations. Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. For this reason credit rating options are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. Instead, ratings express relative opinions about the creditworthiness of an issuer or credit quality of an individual debt issue, from strongest to weakest, within a universe of credit risk. On the other hand an opinion is not a guarantee of an outcome, but rather a statement of professional judgment. The auditor cannot obtain absolute assurance that financial statements are free from material misstatement because of the inherent limitations of an audit. These are caused by a number of factors. For example, many financial statement items involve subjective decisions or a degree of uncertainty which cannot be eliminated by the application of auditing procedures. It should not be assumed that every single fact and detail in a set of audited financial statements has been checked and verified by the auditors, and is therefore guaranteed to be 100 percent accurate. The auditor obtains reasonable assurance by gathering evidence through selective testing of financial records.

The factors which hinder Credit Ratings reflecting the actual creditworthiness

Through the territory of credit rating is regulated by the relevant regulators viz., (i) Bangladesh Securities and Exchange Commission; (ii) Bangladesh Bank; (iii) Insurance Development and Regulatory Authority of Bangladesh, they don't select and deploy the credit rating agencies for the companies whose financial instruments to be rated; rather credit rating agencies (CRAs) are employed by the issuers/the companies, which is a sole source of debate against the transparency of the rating.

A various types of clashing views on credit rating are prevalent as follows:

Fees for credit ratings

CRAs are paid their fees by the companies whose financial instruments are rated. The fees include both the payment for credit rating assignment and annual fees for the entire period as the issue is outstanding. In practice, CRA fees involve both a fee at the time of issuance and an annual fee for as long as the issue is outstanding. Importantly, while CRAs have list price schedules, they may renegotiate fees with regular customers (while, 2002). In addition, CRAs offer related consulting services, such as pre-rating assessments.

Rating Shopping

As the CRAs employed by the issuer, the company requires rating services and settle the rating fees during the rating period. Here, the regulators don't pay any oversight role in ensuring the transparency between the issuer company and the CRA. So, it is not that hard for an issuer company to shop its favorable rating. If any issuer company is unhappy about the rating score, the issuer company may seek their favorite from any other CRA. This is the demand side of the story regarding rating shopping; the supply side also ready as there is an intense competition among the CRAs to grab the clients. In this regard, it's very noteworthy to state the following:

"Brian Clarkson, the then president and chief operating officer of Moody's Investor's Service acknowledge that there is a lot of rating shopping goes on….. What the Market doesn't know is who's seen certain transactions but wasn't hired to rate those deals" (Lucchetti, 2008).

Rating methodologies vary CRA to CRA

The models used by a CRA to rate vary from another CRA because there is no standard set of methods which would be used by all CRAs. So the rating provided by a CRA may differ from another CRA from the same issuer. The various credit risk models used by various CRA would provide imperfect assessments of default risk. As Deven Sharma, President of Standard & Poor's (S&P), notes: "Events have demonstrated the historical data we used and the assumptions we made significantly underestimated the severity of what actually occurred "(Sharma, 2008 has

CRAs can make "adjustments" to their credit risk model outputs

As Griffin and Tang (2010) show in their study of structured product credit ratings, CRAs use noisy credit risk models, to which they make frequent adjustments before determining the final rating.

Barriers to entry in the sector of credit rating

To incorporate a company in a credit rating industry is very difficult endeavor. When anyone tries to float a credit rating company, it requires the approval of the Bangladesh Securities and Exchange Commission (BSEC) and BSEC seeks the permission from the relevant ministry of the Government. As a result of this stringent approval matters, the CRA industry lies in an oligopolistic market, and most of the existing CRAs enjoy very high profit margin. This altogether results extreme barriers to entry in the credit rating industry. White (2002, p.52) argues that it has resulted in an "absolute barrier to entry".

CRITICISM OF CREDIT RATING AGENCIES IN BANGLADESH

It's common belief that the credit rating agencies assigned inflated grades in issuers and the rhetoric in perceived by most of the viewers and it's termed as an anecdotal as well. Criticisms are described here following the list of criticisms in the same manner as cited stated earlier by a good number of discussants:

Lack of Competition

In Bangladesh the two big agencies get the chunk of the assignments and they are extremely dominated like CRA, S&P, Moody's and Fitch'

Lack of Accountability

It has been criticized that even though CRA are considered as an important gatekeeper of the financial industry, the ratings it assigns are based on fixed documented standards and agencies themselves agree that its evaluations are basically opinions which cannot be verified on court.

Lack of Timeliness and Pro Cyclical Behavior

It has been criticized that the credit rating agencies do not issue warnings on timely manner.

Little or Less Monitoring by Regulators

Bangladesh Securities and Exchange Commission (BSEC), Bangladesh Bank, Insurance Development & Regulatory Authority Bangladesh (IDRA) are responsible for monitoring the regular operation of each listed credit rating agency (CRA). However, recent scandals in the financial sector suggest that a more rigid approach towards the screening of various segments of financial sector is required. In order to develop a mechanism of self scrutiny, Association of Credit Rating Agencies in Bangladesh (ACRAB) was formed in April 2014 by the recommendation of Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank which is not effective yet.

END NOTES AND WAY FORWORD

It is very noteworthy and pragmatic as well to get started with Reisen (1999) as he stated, "As for foreign finance, the single most important visitor to a developing country was the representative from a western aid agency in the 1960s; the commercial banker eager to recycle OPEC surplus in the 1970s; the IMF officials in the 1980s, the 'lost decade'. Since then it has been the sovereign analyst from one of the leading rating agencies, Moody's Investor Services, Standard and Poor's, or Fitch." Then the rise in private capital flows, and the stagnation of concessional financial assistance, has significantly raised the influence of credit ratings on the terms (and magnitude) at which developing countries can tap world bond markets. Since the bond markets are effectively unregulated, credit rating agencies have become the markets' *de facto* regulators. Indeed, unlike for industrial countries for which capital market access is usually taken for granted, sovereign ratings play a critical role for developing countries as their access to capital markets is precarious and variable.

The proposition on which domestic credit rating agencies were introduced in Bangladesh was to attract the foreign investments both foreign direct investment (FDI) and foreign portfolio investments. But, actually that has been utopia for Bangladesh; rather all the credit rating agencies are busy with rating assignments to their client banks and the borrower of these banks. There is no bond market in Bangladesh as such which would be the key vehicle to raising domestic and foreign capital for corporate entities.

It seems that the initial rating agencies reflected simple mimicry of institutions from the developed hemisphere. However, transplantation has not been a straightforward process. Regulators and CRAs have gradually become aware of the variety of regulatory structures elsewhere. And the adoption and implementation of a ratings system would have been shaped by Bangladeshi context, including all other relevant factors into consideration in a country like Bangladesh as the developing stage of its democratic system wary of private authority, competing bureaucratic actors hoping to extend their turf and state-owned enterprises with weak financial fundamentals.

Ironically, a highly profitable credit rating industry may not be a good indicator of Bangladesh's economic health. As issuers see CRAs as part of the regulatory structure they may be driven to focus on clearing the regulatory hurdle, and investors may focus on a company's rating instead of the more complicated underlying credit risk. These altogether made the entire objectives ended in smoke. That should not be the headway where the CRAs directed at; rather they should hold responsible themselves for providing neutral rating which would be treated as required social public goods for the business community. The same tune was once uttered by Sinclair (2001) and he stated, 'CRAs as private institutions possess a specific form of social authority because of their publicly acknowledged track records for solving problems. On the other hand, Basel Accord is making rule of the game tight and rigid but they are not paying heed to the essence of rating because the recent suggestions from the Committee on Banking Supervision for a new Basel Capital Accord may imply an greater regulatory importance of credit ratings in future decades (Reisen, 2000 and Reisen, 2001).

The CRAs may lack their dexterity required to rate a unique client/issuer. They might have rated only the blue-chip (i.e. financially strong and well organized) enterprises first and they have been using the same principles to rate all other clients/issuers where they may make huge blunders. Because they may have very little experience analyzing more critical clients/troubled companies, complicated instruments etc. The chance that they could be fooled or misinterpret the figures and other information is genuine. Sometimes, it is reasonable to challenge whether the CRAs can maintain their objectivity or whether they could be unduly influenced by those they rate as well.

Besides, practicing ratings, CRAs might also engage in discrimination, assisting preferred issuers with high ratings and burdening their competitors with low ones. As a result, rating by CRAs is not the panacea for the intended usages. Rather continued vigilance by the investment community and government regulators are needed to ensure that this growing private authority is used in the public's best interests.

Bangladesh has been introduced with domestic credit rating for last twenty years as credit rating idea come in to being in 1995 in Bangladesh, and actual operation started in 2002. But no substantial development has been taken place in this sector yet. The reasons behind it are many but the key causes are lack of effective monitoring and regulatory oversight by the respective regulators. To smooth out the rating process, organizations' desire to investment based counterparty rating would hold the rating agencies to work responsibly and carry on the business of rating agencies ethically. To make the credit rating put into effect in the real sense of term, the government regulatory authorities cannot put them away from implanting the rules of the game of credit rating; today's is the day of deregulation and financial liberalization, where all government authorities have to play the due oversight and guiding roles of putting check and balance in place. Loriaux (1997) put a cautionary signal in this regard where he stated, 'When financial liberalization occurred, states lost their leverage to make companies adhere to legal requirements. So, it is really high time to have a renewed view on CRA industry to place the system in place.

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