CORPORATE CREDIT RATING ANNOUNCEMENTS:
INFORMATION CONTENT OF RATING ANNOUNCEMENTS AND
RATING ANNOUNCEMENTS MODELS:
EVIDENCE FROM THE AUSTRALIAN FINANCIAL MARKETS

by

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A thesis
submitted for the Degree of
Master of Business Thesis (Finance and Economics)
Finance Discipline Group, UTS Business School

University of Technology, Sydney

December 2012
ORIGINALLITY STATEMENT

I hereby declare that this submission is my own work and that, to the best of my knowledge and believe, it contain no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor substantial proportions of material which have been accepted for the award of any other degree or diploma at UTS or any other educational institutions.

I also declare that the intellectual content of this thesis is the product of my own work, except to the extent that assistance from others in the project’s design and conception or in style, presentation and linguistic expression is acknowledged.

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ABSTRACT

Rating agencies have claimed that their rating announcements incorporate both publicly available information and information provided directly by rated issuers. Thus the announcements of rating have the potential to provide information that will impact on the equity and bond markets. The dissertation examines the impact that the release of ratings announcements had on equity and bond returns and also the factors that play a major role in determining the ratings assigned.

The first part of the thesis examines the role of information asymmetry in determining the price effects of announcements of both rating changes and the placing of issuers on CreditWatch. Results from the event studies indicate that firms whose ratings were re-rated downgrades and/or placed on negative CreditWatch record statistically significant negative excess equity returns. However, no such evidence is found in the bond market during the rating downgrades. The results support the presumption that rating downgrades and negative CreditWatch announcements provide new information to the market. Furthermore, we find some evidences of bond market positively reacting to issuers whose ratings were upgraded and/or placed on positive CreditWatch but no such evidence is found in the equity market. Interestingly, we find that equity and bond markets respond more vigorously to information preceding rating announcements, which suggests that rating announcements provided by the rating agencies are anticipated by market participants. Further, we document that markets tend to react more significantly when the rating announcement is unexpected, contaminated, a cross-classes rating changes and/or due to the firm changing its financial structure.
The second part of the thesis examines the impact of various accounting; financial and economic variables in the determination of the ratings. A multiple logistic regression model, which incorporates accounting; finance and economic variables, suggests that debt coverage and earning stability have the most pronounced effect on rating change announcements. When conducting both in-sample and out-of-sample forecast, the model is consistently forecast towards rating no changes. Also, we document that the success rate of out-of-sample forecasts using a moving window procedure is higher than normal out-of-sample forecast procedure.
ACKNOWLEDGEMENTS

This thesis would not have been completed without the support of a number of people and organizations. First and foremost, I would like to express my gratitude to principal supervisor - Professor Ronald Bird and Dr. Pascal Nguyen, for their research supervision, support and guidance over the course of my study.

The empirical investigations in this thesis would not be possible without data. I therefore thank Bloomberg for providing Australian Corporate Credit Rating Announcements data, DataStream for providing daily stock returns data, ASPECTHUNTLEY for providing accounting data, Dow Jones Factiva for providing corporate announcements information, Australian Financial Markets Association (AFMA) for providing daily traded and over-the-counter traded bond yields data and School of Finance and Economics for proving fund to purchase Australian Corporate Credit Rating Announcements data from Standard & Poor's.

I thank my fellow colleagues, in particular Danny Yeung who literally sat alongside me and provided great help for the entirety of my Master of Philosophy. Thank you for assisting me with coding, data cleaning and econometric issues.

Last but not least, I would like to thank my parents, family and friends for their constant support and love for all these years.
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