Testwale Current Affairs PDF

1. RBI prohibits regulated entities from using Brickwork Rating services (Oct. 13, 2022)

Reserve Bank of India has asked Banks and NBFC, <u>Credit Information Companies</u> and other financial entities regulated by it, to immediately stop obtaining any new ratings from Brickwork Ratings India.

Securities Exchange Board of India (SEBI) in its order dated 6 October 2022 had directed the <u>Brickwork Ratings India</u>, to wind up its operation within 6 months after a number of deficiencies were found in its working by a joint team of RBI and SEBI.

Credit Rating Agencies are regulated by SEBI in India. Brickwork is one of the seven Sebiregistered credit rating agencies. The others are **CRISIL**, **CARE**, **ICRA**, **Fitch**, **Infomerics Ratings and Acuité Ratings & Research**.

What is a Credit Rating Agency?

- Credit Rating agencies are financial companies which rate the **credit worthiness** of the government or the companies which want to raise capital from the market.
- Credit means loan and Credit worthiness means whether the borrower is capable of returning the loan on time or not and what is the level of risk involved.
- The Rating agency looks into the borrower's financial strength and weakness, the quality of its management, its field of business etc and then expresses its opinion .
- The credit rating agency expresses its opinion on the credit worthiness of the borrower by giving it ratings. Credit rating agencies typically assign letter grades to indicate ratings. Normally AAA is the highest possible rating for the borrower.
- It means that in the opinion of the credit rating agency the borrower's risk of default is very low and it will repay the loan on time.
- Greater the risk, lesser the rating. If the rating agency gives the borrower a **junk ratin**g then it means that the risk of default is highest.

Benefits of rating

- The credit rating agency's rating helps the investor/lender in determining the level of risk involved in giving loans to the borrower.
- It also helps the borrowers as the rating affects the interest rates. If the borrower has been given the highest possible rating then the borrower will get loans at cheapest possible rates. As the rating declines the level of risk increases and so is the rate of interest.
- Companies which have been given junk ratings find it difficult to borrow money from the market and if anybody agrees to provide it loan then the rate of interest is very high.