Application to informative impact of Credit Rating Changes

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We are going to see a mysterious linkage between bond and stock market from the point of view of Credit Rating Agencies. CRAs are organization initially for bond market. However, it is too illiquid to make a tradition event study possible in China. Hence, we turn our interest to Chinese stock market, especially after considering its unique features presented.
Each listed company with Credit Rating Changes (CRCs, upgrades and downgrades) is under our examination by event study (market model) to see the informative impact on common stock returns. This examination starts from the entry of CRAs to Chinese financial market (1988) until the most recent period.

Chinese stock market is consisted of three listing place: Shanghai Stock Exchange, Shenzhen Stock Exchanges an Hong Kong Stock Exchange. A share is a board of emerging market with local money: Renminbi (CNY), where individual investors largely outnumber institutional investors (domestic and QFII*1* combined) in terms of brokerage account and retail investors trade more frequently but with small market capitalization; while H share is a board where companies incorporated in mainland China, are listed in HK Dollars, on one of the most dynamic Asian markets on the international level.

Credit Rating Agencies(CRAs), as information intermediary provide investors with private information access to their contractual principles: issuers. Here, the extended version of Agency Theory is applied, where the use of ratings are taken by all market stakeholders, under the asymmetric information hypothesis.
"Big Three" are the main players worldwide but since they are not officially recognized by Chinese rating regulation authorities, Chinese local agencies("Top Three"*2*) dominate the entire mainland market. However, global agencies are still companies' first choices, when they are able to go public on Hong Kong Stock Exchange.

Rating decisions send Signals. In China, there is no abnormal common stock return after event study of full sample. However, after taking into account of segmentation effects, we found that downgrades were harmful to holders of A shares (only in Shenzhen), but they were good news for holders of H shares.
Institutional environment where local and global CRAs are situated, also have cognitive or normative influence, on the behavior of market actors and the way how they react to CRCs. We found that downgrades were perceived negatively in the first case but positively in the second one. (389)