

Determine the responsibility of credit rating agencies in the occurrence of financial and banking crises
- An analytical study with reference to the bankruptcy crisis of the American Silicon Valley Bank-

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Abstract:

This article endeavors to underscore the pivotal role played by credit rating agencies in the assessment of the creditworthiness of bond issuers, encompassing both institutional entities and sovereign nations. The article emphasizes the prerequisite for well-defined criteria governing these agencies, characterized by transparency and unwavering objectivity in their credit assessments. Furthermore, this study delves into the inquiry of the potential culpability of credit rating agencies in precipitating financial and banking crises, particularly in recent years, exemplified by the 2008 mortgage crisis and the 2023 Silicon Valley Bank bankruptcy episode.

The investigation yields a multitude of conclusions, with paramount significance placed on establishing the contributory role of credit rating agencies in the unfolding of financial crises. Evidently, prominent credit rating agencies provided erroneous and overly positive ratings for numerous entities, shortly preceding their declaration of bankruptcy. The research also underscores the imperative of proposing an alternative to conventional credit rating agencies, advocating for the adoption of Islamic credit rating agencies. This suggestion gains prominence in light of the continuous expansion of Islamic finance and its assimilation into the global economic landscape.

Keywords: Credit rating agencies, Financial crises, Banking crises, Mortgage crisis, Silicon Valley Bank.

JEL Classification: G20 ,G21 ,G29.

1. INTRODUCTION:

As a result of the prevailing uncertainty in the banking and securities market, along with the financial and banking risks it generates, primarily credit risks on the counterparty side, and due to the impact of liberalizing trade in services, technological advancements, and increased competition resulting from financial globalization on the other hand, the focus on financial and banking risk management has increased by monetary authorities and various international financial regulatory bodies overseeing the banking industry and securities market.

The opening up and integration of financial markets and the issuance of high-risk financial products have made the development of risk assessment methodologies and the provision of sufficient and accurate information to investors in the financial markets a top priority. In this context, financial institutions known as credit rating agencies have emerged. These agencies issue indicators to assess the creditworthiness of borrowing institutions and even sovereign debts of countries. They have gained the trust of governments, financial investors, as well as various international financial and banking organizations like the Basel Committee on Banking Supervision.

However, this trust began to collapse, especially after the deterioration of the global financial system and the emergence of financial crises, such as the subprime mortgage crisis in 2008 and the Silicon Valley Bank bankruptcy crisis in 2023 in the United States. These agencies were accused of providing inaccurate and misleading ratings for various decision-making levels

RESEARCH QUESTION:

Based on the introduction mentioned earlier in the study, the main problem of this research revolves around the following central question: How did credit rating agencies contribute to the occurrence of financial crises?

SUB-QUESTIONS:

In order to address the study's problem, we will attempt to tackle the following sub-questions:

- What is meant by credit rating?
- What are credit rating agencies?
- What is the role of credit rating agencies in the emergence of financial crises?
- Can Islamic credit rating agencies be considered an alternative to traditional rating agencies?

HYPOTHESIS:

Incorrect credit ratings can be considered a major cause of generating and triggering financial crises.

SIGNIFICANCE OF THE STUDY:

The significance of this study lies in elucidating the crucial role played by credit rating agencies in determining credit risk levels and providing investors in financial markets with necessary information for balancing returns and risks. This is achieved through the design of metrics and indicators that translate into creditworthiness assessments for debtors. Additionally, the study aims to investigate the responsibility of credit rating agencies in the occurrence of financial crises, especially after being accused of failing to provide accurate

credit ratings, particularly during the global financial crisis in 2008 and the SVB bank bankruptcy crisis in 2023.

STUDY OBJECTIVES:

- The study aims to achieve the following objectives:
- Exposing the concept of credit rating by shedding light on the most important global credit rating agencies and their operating mechanisms.
- Presenting the significance of the existence of credit rating agencies in studying and analyzing the creditworthiness of debtor parties and providing necessary information for investing in financial markets.
- Analyzing the various credit rating grades issued by credit rating agencies.
- Attempting to diagnose the responsibility of credit rating agencies in the occurrence of global financial crises.

METHODOLOGY OF THE STUDY:

In line with the nature and objectives of the study, and in order to address its problem, a combination of both the descriptive and deductive approaches was employed. This was achieved by extracting and analyzing the most relevant research that tackled the subject matter of the study.

PREVIOUS STUDY:

Previous Studies: Among the most important studies closely related to our research topic, we find the following:

- Study by Moudani Ahmed, "**The Role of Credit Rating Agencies in the Creation of Financial Crises and Their Reform Requirements.**" This study aimed to review the concept of the credit rating industry and the most prominent global agencies involved in it, as well as the role of these agencies in creating financial crises within the financial markets and their reform requirements. The study reached several conclusions, the most significant of which is that credit rating is a process that helps monitor risks, access global capital markets, and obtain loans from regional and international institutions. However, it also found that these agencies lack credibility, transparency, and integrity, and have contributed to the creation of financial market crises, such as the 1990s Asian financial crisis and the 2008 financial crisis, due to their failure in issuing accurate credit ratings for several banks and financial institutions.
- Study by Khaled Mokaddem, "**Credit Rating Agencies and the Global Financial Crisis: Reorganization or Conflicting Interests?**" This study presented the role of credit rating agencies in the financial crisis and the impact of the crisis results on the reevaluation of the laws governing these agencies. One of the key findings of this study is that the inability of credit rating agencies to understand the increasing complexity of financial instruments and bonds or their attempt to maintain rating contracts with clients can lead to ratings that do not reflect reality, misleading investors, and consequently entering financial systems into crises. This was evident in the 2008 global financial crisis.

2. THEORETICAL INTRODUCTION TO CREDIT RATING AND FINANCIAL CRISES:

2.1 CONCEPT OF CREDIT RATING (CREDITWORTHINESS):

Credit rating is a probabilistic evaluation of the credit risk level that financial investments in bonds issued by a government or an institution may be exposed to. (Hashem Daidan Tuwairish, 2019, p. 22). Credit rating is also defined as a process aimed at providing information and independent assessment of the suitability of a financial institution and its ability to meet contractual obligations or the quality of securities or financial products. However, credit rating does not guarantee the institution's ability to fulfill its obligations. (Ahmad Al-Tamimi, 2020).

2.2 KEY TYPES OF CREDIT RATINGS:

Credit ratings come in various types based on several criteria (time period, rated instrument, rating agency, rating requester). However, the focus is on studying the two most important types of credit ratings, namely sovereign credit rating and bank credit rating. These types can be detailed as follows: (Moudani Ahmed, 2013, p. 56).

2.2.1. SOVEREIGN CREDIT RATING:

The sovereign credit rating is defined as the opinion of a credit rating agency regarding the future financial strength of a country and its willingness to meet its financial obligations fully and on time. The higher a country's sovereign credit rating, the lower the chances of it defaulting on its financial commitments during financial and economic crises.

2.2.2. BANK CREDIT RATING:

The bank credit rating expresses the opinion of a credit rating agency on the likelihood of a bank facing financial difficulties and, therefore, its need for future financial support and assistance.

2.3. BENEFITS AND CONDITIONS OF CREDIT RATING:

2.3.1. BENEFITS OF CREDIT RATING:

The credit rating process has several benefits, including enhancing transparency in financial markets, providing an informational basis for investment decision-makers, applying objective and independent standards transparently, and reinforcing the resilience of the financial system.

2.3.2. CREDIT RATING CONDITIONS:

Any credit rating process requires the fulfillment of the following conditions: certainty (clarity and transparency), credibility, accuracy, broad coverage of financial markets and instruments, attention to the local, national, and global levels, and providing decision-makers with an effective framework for investment reference (financial analysis tools).

2.4 BENEFICIARIES OF CREDIT RATING:

Many parties benefit from the credit rating process, including borrowers, lenders, intermediaries and brokers (banks, financial institutions, and consultants), governments and regulators of financial markets, businesspeople, economists, financial analysts, and international organizations concerned with financial markets and economic development.

2.4.1. LOAN CREDIT RATING:

This type of classification is done based on criteria used by credit rating agencies, such as returns, existing loans, and loan history.

2.4.2. CREDIT RATING FOR SOME BANKING AND FINANCIAL OPERATIONS:

The credit rating focuses on the debtor's ability or possibility to settle its obligations. This level of credit rating provides information about the debtor's current situation, enabling the classification of individual transactions such as bond issuance.

2.4.3. CREDIT RATING FOR SOME FOREIGN CURRENCY OPERATIONS:

In general, credit rating measures the ability to repay or compensate for any liability of the subject under review. Regarding credit rating in foreign currencies, it assesses the ability to repay in foreign currencies. For instance, this type of rating applies to countries heavily reliant on debt-based economies.

2.4.4. SOVEREIGN CREDIT RATING "THE HIGHEST LEVEL OF STATE RISK RATING":

Similar to institutions in general, the financial capacity of a country can be measured, whether it is an advanced or third-world country. In this case, the credit rating for the country's financial capacity considers the impact of tax capacity on repayment ability and its results, determining the highest level of acceptable borrowing.

2.5. MECHANISM OF SETTING CREDIT RATINGS:

Credit rating agencies carry out the classification task based on demand. Typically, an international organization issuing capital borrowing seeks a rating upon request from the borrowing source (e.g., bonds) or based on advice from its financial advisors. The rating process is tested on the issuer, but the rating itself is applied to a specific issuance when it is documented. In other words, the credit rating does not apply to the organization itself, but rather to its financial instruments (however, it is common for investors and funders to refer to an organization's credit rating for their debts).

2.6. CONCEPT OF FINANCIAL CRISES:

A financial crisis is defined as a sudden and severe collapse in stock and bond prices - a market crash - or in a country's currency, leading to the bankruptcy of many financial institutions and negatively affecting economic growth rates. On the other hand, a bank crisis is defined as a sudden and significant increase in withdrawals of deposits from commercial banks, resulting from a continuous decline in the quality of bank assets. When deposits are not secure, this leads to a decrease in the quality of the loan portfolio and an increase in bad loans, which can lead to a banking crisis.

3. ANALYSIS OF CREDIT RATING AGENCIES' WORK AND THEIR ROLE IN FINANCIAL CRISES**3.1 DEFINITION OF CREDIT RATING AGENCIES:**

Credit rating agencies are private independent companies that assess the creditworthiness of bond issuers, whether they are countries or companies. They evaluate the issuer's ability to repay debts or the investment feasibility in them. (Bouhafs Rawani, 2017, p. 183). A credit rating agency is also defined as a private legal company that operates in the financial sector. Its primary mission is to assess the financial solvency of institutions, countries, or financial operations, as well as studying the risks of default by borrowers. (Anne-Sophie Demonchy, 2020).

3.2. THE EMERGENCE AND HISTORICAL DEVELOPMENT OF CREDIT RATING AGENCIES:

The activity of credit rating emerged initially with the appearance of credit analysis companies after the 1837 crisis, which revealed serious flaws in the financial system. This emphasized the need for more information to improve decision-making within institutions. In this context, a new activity emerged known as "selling financial information." The first company to engage in this activity was The Mercantile Agency, established in New York in 1841 after the collapse of a major textile company. The Mercantile Agency decided to focus its activity on selling financial information by utilizing its commercial files and assessing the creditworthiness of its clients (Jean-Guy Degos et al., pp. 47-48). Subsequently, as the activities of the railroad sector expanded, companies resorted to Moody's Agency, which appeared in 1909, to evaluate their bonds offered for public subscription. Starting from 1920, these agencies began rating the debts of advanced countries issued in dollars. However, from 1986, Moody's shifted to rating bonds issued in currencies other than the dollar. The increasing international trade after World War II led to a growing need for financing. By the 1970s, financial markets witnessed significant development with the appearance of financial derivatives in America. However, this development was accompanied by increased lending risks, which led investors to seek credit rating agencies' services to assess the solvency of institutions and their ability to pay interest on bonds. This encouraged the emergence of several rating agencies. It is worth noting that the US Securities and Exchange Commission issued a law in 1975 regulating the establishment and operation of credit rating agencies. The dominance of the three agencies in the world credit rating market can be explained by their ability to attract issuers due to their reputation and long history in bond rating. Thus, any credit rating agency that obtains legal recognition remains incomplete unless it enjoys the issuers' confidence. Therefore, many small rating agencies that appeared at times were unable to compete and were acquired by Moody's, Standard and Poor's, and Fitch Ratings, which now collectively monopolize about 94% of the rating activity worldwide. Meanwhile, the work of the remaining agencies is limited. One of the most famous small agencies in the field of assessing the solvency of institutions and countries is Dagong, a Chinese agency that has been independently operating since 1994. It began by rating Chinese institutions and later moved to sovereign debt rating in 2010. Today, it deals with approximately 72 countries. The international rating market also witnesses the activity of some regional or sectoral agencies, such as the French Export Credit Agency (COFACE). This institution assesses the economic, financial, and political risks that may affect an institution's investments in a host country. (Magaazi Abdelrahman, 2013, pp. 37-38).

3.3. MOST PROMINENT CREDIT RATING AGENCIES:

The key global credit rating agencies and their distinctive features can be summarized in the following table:

Table N° 1. Top Global Credit Rating Agencies

The Agency	Distinctive Features of the Agency
Moody's Investors Service	More than 2,400 institutions worldwide benefit from its services, and it conducts the following credit ratings: • 100 sovereign credit ratings, 12,000 ratings for companies, 29,000 ratings for public financial bonds, and 96,000 ratings for high-risk structured financial products. The agency employs over 1,000 credit analysts. Its offices are distributed across 23 countries worldwide, with over 6,300 employees. The agency performs the following tasks: • Conducting over 90 sovereign credit ratings worldwide, evaluating the financial capacity of governments and their willingness to honor their debts, using quantitative and qualitative criteria.
Standard & Poor's	• In 2008, the agency issued over a million credit ratings, assessing debt worth 23 trillion US dollars. It also owns one of the most important stock market indices, the S&P 500 index. It covers more than 150 countries and has over 50 branches worldwide. The agency conducts the following credit ratings: • 105 sovereign credit ratings worldwide, 3,212 ratings for banks and non-banking institutions, 2,294 ratings for insurance companies, and 1,724 ratings for various institutions worldwide. It also rates over 9,400 high-risk financial instruments.
Fitch Ratings	

Source: (Ben Swise Hamza, 2016, pp. 499-500).

3.4. CREDIT RATING GRADES AND SYMBOLS:

In conducting credit rating assessments, global credit rating agencies use alphabetical letter symbols to indicate the credit quality, which falls into two types of credit risk levels:

- **Investment Grade:** It denotes lower credit risk and is represented by symbols Aa, A, Baa, and Aaa for Moody's, and BBB, AAA, A for Standard & Poor's and Fitch Ratings.
- **Speculative Grade:** It indicates higher credit risk and is represented by symbols B, Caa, Ca, C, Ba for Moody's, and CCC, CC, C, BB, B for Standard & Poor's and Fitch Ratings. The credit rating agencies also add numbers or signs on the right side of the rating grade to indicate the credit quality level within each rating grade. For Moody's, the numbers 1, 2, or 3 are added to the rating grades from Aa to Caa, where 1 signifies the highest final rating within the grade, 2 indicates the mid-range of the grade, and 3 represents the lowest final rating within the grade. For Standard & Poor's and Fitch Ratings, they use + or - signs to further express the credit quality within the rating grades from AA to B.

The above information can be summarized in the following table:

Table N° 2. Credit Rating Grades and Symbols for Moody's, Fitch Ratings, and Standard & Poor's.

	<i>Credit Rating Grades and Symbols for Moody's, Fitch Ratings, and Standard & Poor's</i>				
Credit Risk Level	Description	Moody's	Fitch Ratings	Standard & Poor's	Loss rates at each level
Investment Grade	Safest	Aaa	AAA	AAA	0.0016%
	high	Aa1	AA+	AA+	0.0171%
	creditworth	Aa2	AA	AA	0.0374%
	y	Aa3	AA-	AA-	0.0781%
	medium to	A1	A+	A+	0.1436%
	high	A2	A	A	0.2569%
	creditworth	A3	A-	A-	0.4015%
	y				
	medium to	Baa1	BBB+	BBB+	0.6050%
	below-				
	average	Baa2	BBB	BBB	0.8690%
	creditworth				
	y	Baa3	BBB-	BBB-	1.6775%
	non-	Ba1	BB+	BB+	2.9040%
Speculative Grade	investment	Ba2	BB	BB	4.6265%
	grade	Ba3	BB-	BB-	6.5230%
	risky	B1	B+	B+	8.8660%
		B2	B	B	11.3905%
		B3	B-	B-	14.8775%
	high-risk	Caa1	CCC+	CCC	19.9726%
		Caa2	CCC		26.8125%
		Caa3	CCC-		38.4017%
		CA			55.0000%
	defaulted	C			100.0000%
				DDD	
				DD	
			D	D	

Source: (Medani Ahmed, 2013, p. 55).

3.5. CREDIT RATING AGENCIES' RESPONSIBILITY IN FINANCIAL CRISES:

Despite the significant importance of credit rating agencies, there is almost unanimous consensus on their role in causing financial crises due to their failure to provide accurate credit ratings.

3.5.1. Credit Rating Failures during Financial Crises (1929-2002):

International credit rating agencies were unable to predict many global financial crises. They failed to anticipate the 1929 crisis and also couldn't predict the bankruptcy of Enron, one of the major electricity companies in the United States. The stock prices of Enron

experienced a substantial decline. In August 2000, the company's stock was valued at \$90, which then dropped to \$60 in April 2001 and continued to plummet to \$33 on October 16, 2001, after the company itself announced significant losses and restated its profits for the period 1997-2000. The stock price further declined to \$8 on December 2, leading the company to file for bankruptcy.

Despite Enron's deteriorating financial situation, credit rating agencies Moody's and Standard & Poor's continued to assign good ratings to the company's bonds and stocks. This occurred just four days before Enron declared bankruptcy on December 2, 2001. Concerning the Asian financial crisis (1997-1998), credit rating agencies also failed to detect and confront it. These agencies were unable to identify the vulnerabilities in the economies of the affected countries, and even when they did, they acted slowly by making only minor adjustments to the financial values of those nations. Their mistakes continued throughout this crisis. When the crisis erupted, the agencies drastically downgraded the credit ratings of those countries, marking the largest downgrade in the history of sovereign credit rating operations. This significant downgrade worsened the volatility of market prices. (Maghazi Abdelrahman, 2013, p. 55). The following table illustrates examples of failures by both Moody's and Standard & Poor's during the period 1997-2020:

Table N° 03. Examples of Failures by Moody's and Standard & Poor's During the Period 1997-2002

<i>The Agency : Standard & Poor's</i>				
Year	The country	The rating failure	revised rating	amount of adjustment
1997	Thailand	A (3/09/1997)	-BBB (8/12/1998)	-4
1997	Indonesia	BBB (10/10/1997)	-B (11/03/1998)	-7
1997	Korea	-AA (23/12/1997)	+B (22/12/1997)	-10
1997	Malaysia	+A (23/12/1997)	-BBB (15/09/1998)	-5
1998	Korea	+B (18/02/1998)	-BBB (25/01/1999)	+4
1998	Romania	-BB (20/05/1998)	-B (19/10/1998)	-3
1998	Russia	-BB (09/06/1998)	-B (13/08/1998)	-3
2000	Argentina	BB (14/11/2000)	-B (12/07/2001)	-4
2002	Uruguay	-BBB (14/02/2002)	B (26/07/2002)	-5
<i>The Agency : Moody's</i>				
Year	The country	The rating failure	revised rating	amount of adjustment
1997	Thailand	A2 (08/04/1997)	Ba1 (21/12/1997)	-5
1997	Korea	A1 (27/11/1997)	Ba1 (21/12/1997)	-6

1997	Indonesia	Baa3 (21/12/1997)	B3 (20/03/1998)	-6
1997	Malaysia	A1 (21/12/1997)	Baa2 (14/12/1998)	-4
1998	Russia	Ba2 (11/03/1998)	B3 (21/08/1998)	-4
1998	Moldova	Ba2 (14/07/1998)	B2 (14/07/1998)	-3
1998	Romania	Ba3 (14/09/1998)	B3 (6/11/1998)	-3
2002	Uruguay	Baa3 (03/05/2002)	B3 (31/07/2002)	-6

Source: (Mudani Ahmed, 2013, p. 58)

Through the table, we observe the long-term failures of credit rating agencies, Standard & Poor's and Moody's, during the period 1997-2002, by assigning higher ratings than the actual ratings for several countries, where the deviations from the actual ratings were somewhat significant.

3.5.2. CREDIT RATING AGENCIES' FAILURE TO PREDICT THE GLOBAL FINANCIAL CRISIS OF 2008:

Overall, the failure of global credit rating agencies during the subprime mortgage crisis can be seen in two main aspects: (Maghazi Abdelrahman, 2013, p. 59).

3.5.2.1. INFLATED CREDIT RATINGS FOR MORTGAGE-BACKED SECURITIES CONTRIBUTING TO THE FINANCIAL CRISIS THROUGH THE FOLLOWING FACTORS:

Increased issuance of high-risk complex securities, such as residential mortgage-backed securities and various debt instruments like corporate bonds or loans from commercial banks. Decreased required asset holdings for financial institutions, leading to increased risk levels they were exposed to.

Shocks to financial institutions that affected their ability to meet financial obligations and caused liquidity problems.

3.5.2.2 FAILURE TO ADJUST CREDIT RATINGS FOR SEVERAL FINANCIAL INSTITUTIONS SHORTLY BEFORE THE CRISIS:

Global credit rating agencies rated the debts of many institutions that played a major role in the financial crisis as investment grade. These institutions held securities backed by residential mortgages or insured them, and they were not re-evaluated by rating agencies until August 2007, except for Lehman Brothers, whose rating was downgraded in June 2007. Additionally, American International Group (A.I.G.) received a high credit rating within the investment grade from all credit rating agencies just one day before its rescue attempt. The following table illustrates the credit ratings of several financial institutions one day before their bankruptcy or rescue:

Table N° 4. Credit Ratings of Several Institutions One Day Before Their Bankruptcy or Rescue

<i>Company</i>	<i>Date</i>	<i>Status</i>	<i>Moody's</i>	<i>Standard & Poor's</i>	<i>Fitch Ratings</i>
Lehman Brothers	15/09/2008	Announcement of bankruptcy	A2	A	A+
A.I.G	16/09/2008	received an \$85 billion loan from the U.S. Federal Reserve in exchange for a 79.9% stake	A2	A-	A
City Group	23/11/2008	received \$20 billion and received guarantees on \$300 billion of its assets from the U.S. Department of the Treasury	Aa3	AA-	AA-
Merril Lynch	14/09/2008	acquisition deal by Bank of America	A2	A	A+
Bear Streams	16/03/2008	acquisition deal by JP Morgan	BBB	BBB	Baa1

Source: Prepared by the authors based on the following reference :

(Mudani Ahmed, 2013, p. 59)

(Financial Crisis Inquiry Commission, 2010, p. 39)

From the previous table, it can be observed that the world's largest credit rating agencies, represented by Moody's, Standard & Poor's, and Fitch, had granted strong positive ratings to several major American companies just one day before their announcement of bankruptcy or rescue attempts. This raises significant doubts about the credibility of information provided by these agencies.

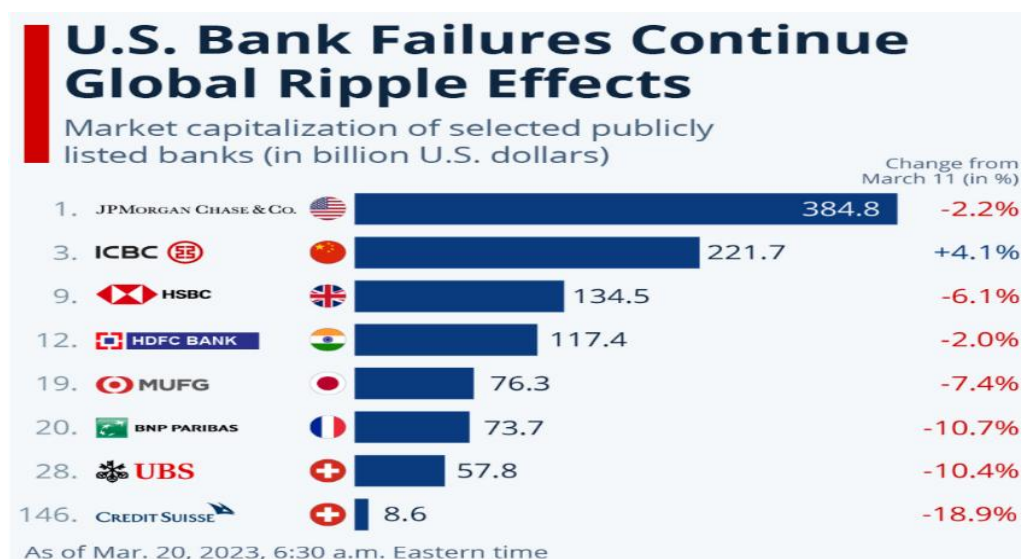
3.6. SILICON VALLEY BANK'S BANKRUPTCY AND THE RESPONSIBILITY OF CREDIT RATING AGENCIES (IMPACT AND ACTIONS):

From January 2020 to June 2022, SVB Bank experienced significant growth in deposits from customers, mostly from emerging technology startups, and the total value of deposits peaked around \$210 billion by mid-2022. The bank invested these funds in long-term US bonds, mostly with a 30-year maturity, and offered high-interest rates to depositors as a liquidity attraction tool. However, the situation took a downturn starting from the second half

of 2022, with the continued interest rate hikes by the US Federal Reserve since March 2022. Depositors withdrew their funds from the bank to invest in short-term bonds, with yields exceeding 5% up to the maturity of 3 to 6 months, making them more profitable than keeping the funds in the bank with a return of no more than 3.5%. As a result of these withdrawals, the bank faced a liquidity crisis, unable to continue paying interest on the remaining deposits amid a global slowdown in lending due to rising interest rates.

Furthermore, the bank couldn't bear more deposit withdrawals, coinciding with the collapse of a cryptocurrency bank in the US market, Silvergit Bank. Silicon Valley Bank had to sell a bond portfolio worth \$21 billion, incurring a loss of approximately \$1.8 billion, and issued shares worth \$2.25 billion to provide liquidity. Following these events, Moody's Investors Service downgraded the bank's credit rating, leading to a bank run, where depositors hurried to withdraw their funds. Subsequently, regulatory authorities announced the closure of the bank and transferred its supervision to the Federal Deposit Insurance Corporation to handle its assets (Silicon Valley Bank, 2023). The crisis also resulted in significant losses for the top five largest US banks during the period from March 9 to March 14, 2023, as illustrated in the following figure:

Figure N° 1. Losses of Major American Banks After the Collapse of Silicon Valley Bank



Source: (Sky News Economy, 2023)

The crisis of Silicon Valley Bank's bankruptcy has sparked new accusations against international credit rating agencies, as they failed to issue or renew reports on the bonds held by the bankrupt banks, despite the significant proportions of their investments. Additionally, these agencies did not reassess the credit ratings of the banks after interest rate hikes and the decline in their repayment capabilities, all while customers were expected to withdraw their savings to invest them at higher interest rates (Zain Diab, 2023).

Faced with the above situation, the decision-makers in the United States moved swiftly to minimize the circle of losses and bankruptcy risks of Silicon Valley Bank. The Federal Reserve Board made a decision to facilitate emergency borrowing by banks. The US administration intervened with a series of emergency measures to boost confidence in the banking sector after Silicon Valley Bank's bankruptcy warned of a deliberate crisis on a wider scale. Regulatory authorities also acted quickly to close Signature Bank, based in New York, which faced pressures during the days that accompanied the crisis.

3.7. KEY PROPOSALS FOR CREDIT RATING AGENCIES' REFORM:

The divergence of international credit rating agencies from their responsibilities necessitates reforming the rating industry, which can be achieved through several measures, such as (Mughazi Abdelrahman, 2013, p. 57):

Ensuring that international credit rating agencies have sufficient information to assess the institutions they rate.

Avoiding collusion between international credit rating agencies and the entities whose bonds they rate by making investors bear the cost of rating, thus pressuring the agencies to provide accurate information for informed investment decisions.

Proposing a specific authority to select credit rating agencies and establishing a link between these agencies and the entities, with the latter responsible for bearing the cost of the rating process, which should only be paid after reviewing the rating results.

Reforming the credit rating agencies can be achieved by evaluating the performance of existing agencies through the following summarized points (Mudani Ahmed, 2013, p. 59):

Encouraging local authorities to promote the establishment of more credit rating agencies to increase competition and prevent monopolies in the industry.

Increasing transparency in the methodologies and procedures used for credit ratings. The International Organization of Securities Commissions (IOSCO) and credit rating agencies have been called upon to publish the methodologies they use in the rating process and disclose their professional conduct rules to enhance transparency in the credit rating industry, which has been shrouded in mystery.

Holding credit rating agencies accountable for issuing accurate credit ratings and increasing market participants' ability to judge the quality of the credit ratings they provide, thereby increasing confidence in these agencies.

Reforming by finding a legitimate alternative to traditional credit rating agencies for Sukuk and Islamic financial institutions. The failure of international credit rating agencies to properly rate these institutions and the difference in the nature of Islamic financial institutions from traditional ones necessitate the activation of the role of the International Islamic Rating Agency (IIRA) in the economy, especially with the continued growth of Islamic finance and its integration into the global economy, resulting from the approach taken by market participants to address the traditional imbalance between supply and demand in the sector. Thus, it is essential to expand and improve the existing Islamic rating agencies and adopt a more transparent environment. This is what the International Islamic Rating Agency (IIRA) and others are working towards, by focusing on the rating of Islamic financial institutions (Khutrusi Yemina, 2016, p. 341). Moreover, the reasons that motivate the establishment of Islamic rating agencies for Sukuk and financial institutions as an alternative to traditional credit rating agencies are as follows:

Treating Sukuk issuances as general debt instruments and disregarding the specific features that Sukuk possess, such as representing ownership stakes in underlying assets, unlike traditional bonds, which do not represent any ownership rights.

Lack of qualified Islamic expertise within these agencies to clarify this aspect, leading these agencies to abstain from delving into this field.

The absence of clear and unified Islamic standards for Sukuk that credit rating agencies can apply and refer to. Credit rating agencies generally do not consider the Islamic legitimacy of Sukuk, as determining the Sharia compliance of Sukuk is the responsibility of Sharia authorities.

Existing Islamic rating agencies are limited in number, including: International Islamic Rating Agency (IIRA), Shariah Supervisory Board for the Cooperative Insurance and

Reinsurance Companies (SSBCIRC), Malaysian Rating Agency, and Al-Farouq Company for Compliances and Credit Ratings (Mudani Ahmed, 2013, p. 60)

4. CONCLUSION:

Securities issuers need an evaluation and credit rating that can help them manage various risks and provide the necessary information for investment and obtaining the required financing, especially since a well-rated financial institution or country differs significantly from one with average or weak ratings. Naturally, the financing process will gravitate towards entities with excellent credit ratings. However, this has raised questions about the credit rating process, particularly after major credit rating agencies were accused of providing favorable and positive ratings that turned out to be misleading for institutions and countries, leading to severe financial crises.

4.1. STUDY RESULTS:

- Credit rating agencies contribute to evaluating the financial solvency of borrowers, whether institutions or countries, which helps in making financing decisions and minimizing various credit risks.
- Despite the importance of credit rating agencies, they have proven to be responsible for causing severe financial crises, especially in recent years (such as the 2008 mortgage crisis and the Silicon Valley Bank bankruptcy in 2023), particularly in financial markets, due to their deviation from true ratings for several major institutions and countries. Thus, the study's hypothesis can be validated.
- Islamic credit rating agencies have recently emerged, considering various Sharia aspects in the rating process, and they can be a genuine and effective alternative to traditional credit rating agencies, especially if they are guided and accepted globally.

4.2. RECOMMENDATIONS:

- A comprehensive reform of various international credit rating agencies is necessary, particularly by revising their credit rating criteria and disclosure methods.
- The creation of an independent regulatory body for credit rating agencies, supported by extensive powers, including the authority to suspend the operation of agencies found to provide misleading and incorrect ratings.
- Support for the experience of Islamic credit rating agencies at the international level, especially since they rely on Sharia principles in their ratings.

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