



The impact of financial ratings on bank governance: A theoretical literature review

L'impact de la notation financière sur la gouvernance bancaire : Une revue de la littérature théorique

JELLOULI TARIK

PhD, Professor of Higher Education, Interdisciplinary Research Laboratory in Economics, Finance and Organizational Management, Sidi Mohamed Ben Abdellah University, Fez, Morocco

Tarik.jellouli@usmba.ac.ma

OUSI MOH HAMZA

PhD, Doctor in Economics and Management, Sidi Mohamed Ben Abdellah University, Fez, Morocco

Hamzaousi128@gmail.com

RESUME :

Durant la crise des subprimes, les agences de notation, autrefois considérées comme essentielles à la transparence financière, ont fait l'objet de nombreuses critiques et d'un examen minutieux de leurs méthodes, au même titre que d'autres normes financières. Dans le secteur bancaire, la gouvernance est fortement influencée par les cadres réglementaires tels que les accords de comité de bale sur le contrôle bancaire (Bâle II et surtout Bâle III), avec un accent particulier sur la gestion des risques et la conformité. Cette gouvernance axée sur la conformité coexiste avec des objectifs de performance, s'appuyant à la fois sur des mécanismes internes (conseils d'administration, mécanismes d'incitation, etc.) et des contrôles externes (réglementation, supervision, etc.) pour orienter et contrôler la gestion.

La notation financière joue un rôle central dans le système financier en évaluant la solvabilité des émetteurs. Réalisé par des agences telles que Standard & Poor's, Moody's et Fitch Ratings, ce processus contribue à des décisions d'investissement éclairées et à la stabilité financière.

Notre article scientifique propose une revue de la littérature théorique analysant les interactions entre la notation financière et la gouvernance bancaire. En mobilisant les apports de la théorie de l'efficacité informationnelle et de la théorie néo-institutionnelle, l'étude vise à comprendre comment la notation financière peut influencer et refléter les pratiques de gouvernance dans le secteur bancaire.

Mots-clés : La notation financière, La gouvernance bancaire, Les agences de notation, La théorie de l'efficacité informationnelle des marchés financiers, La théorie néo-institutionnelle.



ABSTRACT

During the subprime crisis, rating agencies, once considered essential to financial transparency, were the subject of much criticism and scrutiny of their methods, along with other financial standards. In the banking sector, governance is strongly influenced by regulatory frameworks such as the Basel Committee's agreements on banking supervision (Basel II and, above all, Basel III), with a particular focus on risk management and compliance. This compliance-focused governance coexists with performance objectives, relying on both internal mechanisms (boards of directors, incentive mechanisms, etc.) and external controls (regulation, supervision, etc.) to guide and control management.

Financial rating plays a central role in the financial system by assessing the creditworthiness of issuers. Carried out by agencies such as Standard & Poor's, Moody's, and Fitch Ratings, this process contributes to informed investment decisions and financial stability.

Our scientific article offers a review of the theoretical literature analyzing the interactions between financial rating and bank governance. Drawing on contributions from information efficiency theory and neo-institutional theory, the study aims to understand how financial ratings can influence and reflect governance practices in the banking sector.

Key-words: Financial ratings, Bank governance, Rating agencies, The theory of the informational efficiency of the market, The neo-institutional theory.

1. INTRODUCTION

The global financial crisis triggered by the subprime mortgage collapse cast a harsh spotlight on the role and functioning of credit rating agencies. As indispensable actors in the international financial information system, these agencies found themselves at the center of intense scrutiny and criticism. Their methodologies, governance practices, and accountability, much like accounting standards and financial analysis models, were questioned in both the United States and Europe. This crisis exposed structural weaknesses and reignited debates surrounding the transparency and reliability of financial evaluations.

In parallel, the banking sector, inherently prone to systemic risks, is subject to particularly rigorous governance frameworks. Unlike conventional corporate governance, banking governance is uniquely characterized by its emphasis on compliance and risk management, reflecting the sector's economic importance and potential for contagion. Internal mechanisms such as boards of directors, executive compensation systems, and shareholder oversight, are complemented by a broad spectrum of external controls, including regulatory and supervisory bodies. Together, these structures aim to discipline management behavior, ensure financial stability, and prevent institutional failure.

Within this highly regulated environment, credit ratings represent a critical external governance mechanism. By providing independent assessments of an institution's creditworthiness, rating agencies such as Moody's, Standard & Poor's, and Fitch Ratings serve as information intermediaries that influence market behavior, capital allocation, and investor confidence. Their evaluations play a vital role in guiding both regulatory decisions and private investment strategies.

Despite the centrality of both banking governance and ratings to the functioning of modern markets, the interaction between these two dimensions remains underexplored. This article seeks to fill this gap by analyzing the relationship between bank governance and ratings. Anchored in the informational efficiency theory of financial markets and neo-institutional theory, our research examines how governance practices influence rating outcomes, and conversely, how ratings may act as a catalyst for improved governance.

Our objective is thus twofold: first, to better understand the informational value of rating in the context of bank governance, and second, to explore whether these ratings serve merely as reflections of governance quality or also as instruments for its enhancement. In doing so, this study aims to contribute both to the academic literature and to the improvement of regulatory and strategic practices in the banking sector.

The impact of financial ratings on bank governance raises a central question: To what extent does the financial rating contribute to strengthening the bank governance?

This article is structured as follows. Section 2 provides a conceptual review by clarifying the notion of financial ratings and examining the main foundations of banking governance. Section 3 presents an in-depth literature review mobilizing two complementary theoretical perspectives. First, it draws on the theory of market informational efficiency to analyze the impact of financial ratings on bond prices and on the market value of rated companies, with particular attention to empirical evidence on stock price reactions and the effectiveness of ratings as a governance mechanism in the banking sector. Second, the article adopts a neo-institutional approach to examine the institutionalization of financial ratings in banking, highlighting their normative, cognitive, regulatory, and coercive dimensions, as well as their influence on bank management practices.

2. CONCEPTUAL REVIEW

2.1. What does rating mean ?

External financial rating or debt rating or rating (in the Anglo-Saxon world) is the assessment, by a financial rating agency, of the financial solvency risk of a company, a State ("sovereign rating") or another public authority, national or local, of a transaction (loan, bond issue, structured financing transaction, securitization, etc.). It also allows the allocation of a rating corresponding to prospects of repayment of its commitments to its creditors (suppliers, banks, bondholders, etc.)

For investors, rating is a key criterion in estimating the risk that an investment involves, particularly in the context of increasingly global financial markets that make it difficult to control information and therefore all risk parameters. It is even one of the mandatory criteria for institutional borrowers (pension funds, local authorities, etc.) whose statutes specify a minimum rating level for their investments. It is essential to distinguish between financial rating and customer risk assessment, which may have the same objectives (dealing with counterparty risk) but do not use the same resources (the first uses a real accounting and financial audit and the other uses an expert system - automatic). Above all, the rating is requested and outsourced (often by large listed companies) while the assessment is systematic and carried out intrinsically on all companies.

The necessary financial analysis and the assignment of ratings are entrusted to financial rating agencies. However, these assignments by the largest financial rating agencies are criticized for reflecting the balance

The rating approach has undergone changes with regard to the determinants of the different ratings, but also the rating scales. Nowadays, agency ratings are presented in the form of combinations of letters accompanied or not by a plus (+) or minus (-) sign or a number ranging from 1 to 3.

They can sometimes be accompanied by a qualitative assessment. We will present the rating symbols as well as the different possible qualitative assessments.

For a given company, agencies assess the company itself (the issuer) and/or certain operations of this company. The different ratings or opinions of the three main agencies can therefore be:

A rating on an issuer (this is the reference credit rating) or more precisely on a risk attached to this issuer: this rating makes known, even "in the absence of an issue of securities, the capacity of a company to meet all of its obligations under its debt on time. The purpose of the analysis is to identify medium and long-term trends (3 to 5 years) and not to give an instantaneous image of the issuer's credit risk" (AMF, 2008).

Ratings on transactions (loan, bond issue, structured financing transaction, securitization, etc.) and/or on the securities resulting from them. They therefore concern specific securities issued on the market (for example bonds) and correspond to the capacity to pay on time the entire principal and interest of a specific debt. This is an assessment of the risk of default that bonds and other negotiable debt securities may present. This rating is based on the characteristics of the rated securities and in particular any subordination clauses attached to them.

Therefore, there may be several ratings for an entity. In its 2007 Report on rating agencies, the "Autorité des Marchés Financiers" states that an agency may count 28 possible types of ratings concerning different parameters of the same issuer and sometimes with the same rating scale. Rating agencies strive to explain what a rating corresponds to when it is published.

Each agency has its own rating system that is valid for companies in general. However, bank ratings differ from those of other companies. Since our study focuses on banks, we will return in more detail to the rating approach specific to banks.

With regard to the symbols and meaning of the ratings, depending on the initial duration of the debt, the three agencies practice two types of rating: a long-term rating, which concerns debts with an initial maturity of more than one year, and a short-term rating for debts with an initial maturity of less than 13 months. The following table summarizes the rating symbols of the agencies Fitch, Moody's and Standard & Poor's. Thus, long-term debt ratings are composed of capital letters at Fitch and Standard & Poor's, while at Moody's, the letters are in upper and lower case.



Financial rating scales according to the main rating agencies

Meaning of the note	<u>Moody's</u>		<u>Standard & Poor's</u>		<u>Fitch Ratings</u>	
	Long term	Short term	Long term	Short term	Long term	Short term
Prime	Aaa		AAA	A-1+	AAA	F1+
High grade	Aa1		AA+		AA+	
	Aa2		AA		AA	
	Aa3		AA-		AA-	
Upper grade medium	A1	P-1	A+	A-1	A+	F1
	A2	Prime -1	A		A	
	A3	P-2	A-	A-2	A-	F2
Lower grade medium	Baa1		BBB+		BBB+	
	Baa2	P-3	BBB	A-3	BBB	F3
	Baa3		BBB-		BBB-	
	Ba1		BB+	B	BB+	B

Table 1: Rating agencies scales

Non-investment grade, speculative	Ba2	Not prime	BB		BB		
	Ba3		BB–		BB–		
Highly speculative	B1		B+		B+		
	B2		B		B		
	B3		B–		B–		
High risk	Caa1		CCC+	C	CCC		C
Ultra speculative	Caa2		CCC				
In default, with some hope of recovery	Caa3		CCC–				
	Ca		CC		CC		
			C		C/CI/R		
SD		RD		D			
D		D					

Source: *author's construction*

The long-term rating scale ranges from triple A (maximum) to a minimum of C (Moody's) or D (Fitch and Standard & Poor's). The Fitch and Standard and Poor's scale is refined by adding + or – signs to the ratings, which show whether the issuer is at the top (indicated by +) or the bottom (indicated by -) of the corresponding rating class. Similarly, the Moody's agency scale is accompanied by a numerical coefficient 1, 2 or 3 (for example Baa to Baa1, Baa2, Baa3); these finer units on the rating scale are called “notches”. Each rating corresponds to a different level of solvency and confidence. Thus, thanks to the ratings, issuers are classified according to categories that correspond to higher (high risk or "speculative grade") or lower (low risk or "investment grade") degrees of risk of default. This also makes it possible, by comparing the scales of agencies, to establish a correspondence between the ratings of the three agencies.

Thus, the investment category (less risky debts) extends from Aaa to Baa3 for Moody's, from AAA to BBB- for Standard & Poor's and Fitch. Speculative debts are rated from Ba1 to C by the Moody's agency, from BB+ to D by the Standard & Poor's agency and from BB+ to C by the Fitch agency.

The short-term rating scales have between five and seven notches. The two main categories are called "prime" ("prime-1" to "prime-3") for the investment grade of Moody's and "non-prime" for the speculative grade (we have A-1+, A-1, A-2, A-3, then B, C, D at Standard & Poor's and F1, F2, F3, then B, C, D for the Fitch agency).

In addition, the rating agencies have added qualitative assessments to the alphanumeric rating system. This is the outlook that can be attached to a rating, and the monitoring.

A Moody's rating outlook is an assessment of the possible direction of a rating in the medium term. A rating outlook can have four different directions: positive (POS), negative (NEG), stable (STA) and evolving (DEV for "Developing", i.e. conditioned on a given event or on the fact that the consequence of the positive and negative elements affecting the rating prevents a trend from being identified). "In the rare cases where an issuer is assigned several outlooks with various orientations, an argument for this situation is detailed in the publications. The outlooks concerning the probable evolution of the quality of a signature in the medium term are calculated over a horizon of two to three years at Standard & Poor's, twelve to eighteen months at Moody's and one to two years at Fitch. This qualification does not constitute an expected change in rating, but the signal of a probability of evolution" (AMF, 2008).

In addition to rating changes themselves, agencies may place a company on watch, indicating that a specific event (usually specified in their press release) is likely to lead to a change in the rating in the near future. In this case, the rating is suspended and the agency assesses the impact of the event and then publishes the new rating, which may or may not be different from its level before the watch was placed.

Thus, depending on the nature of the event that triggered it, an issuer may be placed on a watch list pending a possible upgrade (positive watch), a possible downgrade (negative watch) or, more rarely, it may be placed on watch with uncertain direction. In principle, a watch does not exceed 60 days, but some agencies do not set a specific deadline.

In view of the rating scales, an entity's rating may be downgraded or upgraded and remain in the same category, or move from one category to another. We cannot continue this work without taking into account the approach followed by the rating agencies, an approach at the end of which an entity is classified in one or another category on the rating scale.

2.2. Bank governance

The company is perceived as a "nexus of contracts" including managers and financial investors. Conflicts can exist, they oppose either shareholders to managers, or financial creditors (banks and bondholders in particular) to shareholders, hence the interest in corporate governance. The latter is defined by Charreaux (1997) as the set of mechanisms that have the effect of delimiting the powers and influencing the decisions of managers, in other words, which govern their conduct and define their discretionary space. In other words, governance covers all the mechanisms that frame the process of creating and distributing value. But the issue of governance is more complex in the banking sector than in other sectors of activity. Banks can apply the same governance codes as other companies, but they must take into account several elements that have a considerable impact on their governance systems such as deposit insurance, specific and

systemic risk management, internal control systems and balance sheet structure. Jeffers and Pastré (2007) define banks today as composite organizations whose main business is risk-taking and whose competitive efficiency depends, among other things, on the implementation of effective governance. This results in one of the particularities of the banking sector which is the presence of important internal mechanisms (board of directors, depositors, executive compensation system, etc.) and external mechanisms (regulation, supervision) aimed at influencing, disciplining and monitoring the behavior of executives in order to avoid bankruptcies.

Bank governance, or banking governance, is an important factor in developing economies for several reasons. On the one hand, banks occupy a dominant position in the financial systems of developing economies and are extremely important drivers of economic growth. On the other hand, since financial markets are generally underdeveloped, banks in these economies generally constitute the most important source of financing for the majority of companies. Finally, banks are generally the main depository of savings in the economy. Consequently, the bank has a significant weight in the financial stability of the sector and consequently of the economy as a whole. In reality, the literature has paid very little attention to banking governance. In this context, there are many studies on governance, but few of them deal with that of banks. Also, research relating to this subject, assimilates banks to any other company, while the bank is distinguished from other companies by several specificities (DE VAUPLANE, 2012).

The bank is not a company like any other company. Of course, it has a legal status, an organization, a management system, products and a strategy. But it creates money, it collects savings from the public and it manages means of payment. Thus, the mission of banks is to provide the necessary resources to companies in the first place. They provide financial services to citizens and facilitate their access to safe payment systems and means.

Banks play a very important role in the economies of countries. They are a major component of any national economy. Because of this importance, the public authorities of countries ensure that the activities of banks are regulated. In most countries, banks benefit from protection from the States. These two aspects are exercised in the form of banking supervision. Central banks are considered the supreme authority that exercises this control. Banking supervision alone is insufficient. For this reason, a system of good governance must be applied at the level of banks and financial institutions. "This is why banking supervisory authorities have every interest in ensuring that each banking organisation actually applies the principles of sound governance."

First, it should be noted that until 2011, there was no special definition of bank governance. Banks are an essential and very important element for the economy that has led some researchers to pay attention to their governance.

Banks are distinguished by particular characteristics that have prompted these researchers to devote special studies to them. These characteristics can be summarized as follows:

Banks are generally more exposed to information asymmetries between internal members "managers" and external members "shareholders and depositors" in comparison with non-financial companies, because managers are more able to hide information. This makes it difficult for shareholders and creditors to monitor bank managers (Rose, 2003).

Banks are materialized by the considerable opacity of their assets because of the diversification of activities. Due to their economic importance, they are subject to a wide range of laws and regulations (Rajan, 2001) . Banks are characterized by a particular financial structure that distinguishes them from non-financial corporations in both basic functions. (Jonathan and Maureen, 2003).

According to Stuart and Gillan (2006), the governance of banking firms has two aspects: the external dimension is manifested by prudential regulation and the internal dimension represented by the bank's mode of administration.

Banking governance, from the perspective of prudential regulation, is the subject of numerous research studies such as those of Menkhoff and Suwanaporn (2007) who state that a banking crisis can be accentuated following financial liberalization carried out in an underdeveloped institutional environment. It therefore appears that the inefficiency of banking governance mechanisms can be at the origin of financial crises. Minsky (1996) for example shows that an unfavorable institutional environment is at the center of the dynamics of a crisis.

In other words, according to Pathan et al (2006), poor banking governance fuels banking fragility under the effect of financial liberalization which amplifies the euphoria of risk incentives. While Horiguchi (2000) claims that the dysfunction of banking governance is at the origin of the deep crises that have hit Asian countries, Mehran (2004) emphasizes that good banking governance leads to a healthy and sustainable growth of the economy. Similarly, Caprio et al (2004) conclude that it guarantees an efficient allocation of savings. Other works, as recognized as those we have mentioned, have not only questioned the effectiveness of banking governance, but have also shown that prudential regulation is not sufficient to reduce or avoid banking crises.

Indeed, the research of Icard (2002) and Cartapanis (2003) reveals with certainty that banking governance, seen from the angle of prudential regulation "The external dimension" does not improve the security of the financial system because it cannot contain the systemic risk which is the most serious risk that can hit the banking system. These researchers explain this result by the fact that international trade transfers crises from one economy to another.

Indeed, financial liberalization has led to financial weakening which has resulted in a high number of banking crises (Plihon, 2000). An explanation of the literature highlights that financial liberalization is a cause of crises but not the only factor, hence the bank is subject to several types of risks (Diamond and Dybvig, 1983). The main results found prove that financial liberalization and inflation are positively correlated with banking crises. Indeed, high inflation promotes a poor allocation of resources in an economy and causes a redistribution of income in favor of borrowers to the detriment of creditors.

We can therefore see that financial liberalization based on an unstable macroeconomic framework could generate banking crises. Indeed, an effective judicial and regulatory system in a country leads to good and healthy governance. The latter constitutes a strong foundation for uprooting crises.

Given the place of financial institutions in the economy and the opacity of their activities, significant regulations are imposed by governments. To protect depositors and ensure the stability of the banking system, regulatory bodies set up “safety nets” such as deposit guarantees or insurance, the central bank as lender of last resort or local solidarity.

Indeed, there are considerable disparities between the regulatory and legal environment of banks and non-financial firms. Two arguments are often invoked to explain this form of regulation, namely the protection of depositors (Demirguc-Kunt et al, 2005) and systemic risk (Flannery, 1998).

The objective of banking supervision is twofold: the protection of small depositors against the risk of their bank going bankrupt and the protection of the banking system as a whole against the risk of a generalized crisis (Rochet, 2003).

In both cases, we are talking about micro-prudential and macro-prudential regulation, respectively.

According to Merton (1977), deposit insurance, the central bank, contagion effects and mainly the systemic risk incurred by the banking system are the elements on which States base themselves. However, banking regulatory measures can limit the control mechanisms of the governance system.

Deposit insurance motivates shareholders to take excessive risks in banks. It can therefore aggravate agency problems (Prowse, 1997; Macey and O’Hara, 2003). Principal-agent problems in banks are serious following the strong regulation of the banking sector (Prowse, 1997; Macey and O’Hara, 2003; Levine, 2004).

To limit this moral hazard, a process of supervision and prudential regulation has been put in place. Banks are required to maintain a sufficiently high level of their own funds by regulators through the requirement of a minimum capital. It is therefore clear that the regulatory and supervisory bodies are the main stakeholders of banks and that they can have divergent interests with those of shareholders, depositors and creditors. Hence, the complexity of agency problems in the banking sector. More generally, Prowse (1997) even confirms that the most important control mechanism in the banking sector is regulatory intervention. Polo (2007) speaks of the highly regulated nature of the banking sector since it gives the possibility to regulatory authorities to influence and even dominate the governance of banks.

3. A LITERATURE REVIEW

3.1. The contribution of the theory of informational efficiency of the Market

3.1.1. The impact of rating on bond prices

The first studies on the effects of financial ratings concern reactions on bond markets for which the rating is initially intended. Indeed, as we have already mentioned, the rating represents the opinion of a rating agency on the repayment capacity of an issuer and therefore constitutes one of the determining criteria for setting the interest rate of a bond issue. We can cite the studies by Hand et al. (1992) and Hite and Warga (1997) carried out in the United States on the reaction of bond prices to rating downgrades and upgrades by the rating agencies Moody's and Standard and Poor's; the study by Wansley et al. (1992) in the United States on the reaction of bond prices to rating downgrades and upgrades, as well as to rating watch by the rating agency Standard and Poor's; Steiner and Heinke's (2001) study of the German bond market testing reactions to rating downgrades and upgrades, as well as rating watch placements by Moody's and Standard and Poor's; and Creighton et al.'s (2007) study in Australia on the reaction of bond prices to rating downgrades and upgrades by the Standard and Poor's rating agency.

The results of these different studies on different countries reveal the existence of a negative and significant impact on the price of bonds in the case of a rating downgrade. This impact is stronger when the rating belongs to the speculative category. The monitoring has a low intensity impact which is justified. Positive announcements also would have only a weak influence on the price of bonds. In the end, the significant impact is demonstrated only in the case of rating downgrades.

One of the factors that justify the reaction of bond markets to a rating downgrade would be the impact on rate spreads. The study by Karyotis (1997) shows a strong correlation between the rating and the conditions of issue of bond loans, in particular the initial rating. This rating would therefore really serve as a reference for investors to determine the level of remuneration they wish to obtain, they would hesitate to purchase certain unrated bonds (Lantin, 2009). Ory and Raimbourg (2011) demonstrate, on European bond markets, that the stabilization of "spreads" seems to be the primary rating function by agencies. While the results of the study by Sironi (2003) which focuses on the question of whether private investors distinguish between the risk taken by banks, by empirically testing the sensitivity of the "spreads" of subordinated debt securities of a sample of European banks, support the hypothesis that investors in subordinated debt securities are sensitive to bank risk, with the exception of subordinated debt securities issued by public banks (owned by the State or guaranteed by institutions). This author uses a set of accounting variables, ratings, and market measures, he finds that the financial strength rating of the Moody's agency and the individual rating of the Fitch agency, combined (this author assigns the numerical values to the ratings of the Moody's and Fitch

agencies, then averages the numerical values and introduces the result into a regression model), better explain the variation of the "spreads" than the accounting variables.

But market perception is also decisive and an AA-rated issuer, which would have a high level of cash flows, a good reputation or a State guarantee, could obtain borrowing conditions similar to an AAA-rated issuer. There are also other indirect and less easily quantifiable explanatory factors, which are also taken into account, such as taxation, systemic risk, volatility, the level of supply and demand or even market liquidity (Gonzalez et al., 2004).

Returning to the stock markets, according to some researchers (Holthausen and Leftwich, 1986), the reaction of stock prices to rating downgrades is due to the expected consequences in terms of deterioration of the financing conditions of the rated company. Thus, the additional costs generated by the downgrades of the company's ratings constitute one of the main reasons for the correction of stock prices (Holthausen and Leftwich, 1986). The fall in value following a rating downgrade would therefore primarily affect the bond market before spreading to the stock markets (Gonzalez et al., 2004).

3.1.2. The impact of rating on the value of rated companies

3.1.2.1. Analysis of the results of studies on the impact of ratings on stock prices

On the empirical level, there is very old work on the impact of rating, but it's more interesting to limit ourselves to the work carried out over the last two decades, because the rating agencies have made significant changes on their practices, in particular by modifying their methodology, refining their rating scales and adding qualitative assessments (put under surveillance, perspective). Indeed, the first studies conducted by Wakeman (1978) and Weinstein (1977) using the event study methodology showed an absence of reaction of stock returns to changes in ratings, while the results of more recent studies (Goh Jeremy and Ederington, 1993; Hand et al. 1992; Dichev and Piotroski, 2001; François-Heude and Paget-Blanc, 2004; the "Autorité des Marchés Financiers" (AMF), 2006; Lantin (2010); Hubler et al. (2013)) highlight a reaction of prices to negative announcements from rating agencies while demonstrating an absence of significant reaction to improvements in ratings. The results of the Lantin (2010) study confirm a moderately asymmetric reaction of the stock markets, that is a decrease in the stock price following negative announcements and a virtual absence of reaction in response to positive announcements and confirmations of ratings on European financial markets.

Most of his work has been done on American markets. Here we focus on the study of Hand et al. (1992) and that of Goh and Ederington (1993). In their study on the impact of bond rating announcements on stock (and bond) prices, Hand et al. (1992) introduced the additional criterion of prior changes in rating and outlook; they found that, whether or not the announcements were preceded by other rating events, the reactions were fully anticipated by the market and therefore no longer had any impact on stock prices. However, they found

that the market reacted negatively to downgrades. Goh and Ederington (1993) were also interested in the influence of bond ratings on stock (and bond) prices. Their theory is based on the principle that the reaction of shareholders (observed in stock prices) and that of creditors (observed in bond prices) cannot be the same for all downgrades.

To validate their hypotheses, Goh and Ederington conducted an exploratory study to find out whether all downgrades are bad news for shareholders. They used the comments accompanying the ratings when they were published to classify downgrades into three groups according to the agencies' motivations. The first group contains rating changes due to deterioration in financial performance or forecasts. The second group contains rating changes due to changes in debt leverage. A final group contains all unjustified rating changes. Their results show that the market reacts negatively to downgrades due to a revision of the company's financial forecasts (the rating downgrades of the first group), with no significant reaction for other reasons. According to the authors, downgrades caused by an increase in the issuer's debt are based on known information, so they have no impact on stock prices. This leads us to retain, for the rest of our research, that not all ratings have an influence on value, shareholders may pay more attention to certain ratings than to others.

An explanation for the extent of the impact of ratings on American markets seems to be found at the level of the rating scale. Indeed, several studies have highlighted the effect of the transition from the “investment grade” category to the “speculative grade” category, an effect that can be explained by a segmentation of markets since certain investors are not authorized to hold securities in the “speculative grade” category or by the non-linearity that characterizes the relationship between rating level and probability of default (a change of one notch, for example, does not lead to the same change in the default rate) (Holthausen and Leftwich [1986], Jorion and Zhang [2005]).

We also find different influences of the rating within the categories. Hand, Holthausen and Leftwich (1992) highlight that the impacts of “downgrades” are more significant within the “speculative grade” category than within the “investment grade” category.

These explanations of the magnitude of the stock price reaction inform us that the level of valuation can be different depending on the level of the rating on the rating scale.

On the European markets, we use the study by François-Heude and Paget-Blanc (2004) and that of the AMF (2006). The study by François-Heude and Paget-Blanc (2004) aims to shed light on the informational content of ratings and their impact on the stock price of the companies concerned. It highlights the existence of a link between the announcement of a rating agency and the evolution of the stock price of companies listed on Euronext-Paris between January 2001 and the end of May 2003.

Over this period, the authors identified 273 announcements concerning 62 companies to which they applied the event study method. In this study, the authors distinguish the type of announcement (put under surveillance, change of rating, change of outlook and the attribution for the first time of a rating) and the supposed impact, positive or negative, of the announcement. The purpose of this segmentation was to show that the information content differs depending on the nature of the rating agency's announcement. The authors show that for the monitoring, it is difficult to know whether the reaction is rather due to the cause that motivated this monitoring or to the announcement of the monitoring itself. It seems that the monitoring of banks by the agencies with a view to updating their ratings is also followed by shareholders. A downgrade of the rating has a significantly negative effect on the stock price on the day of the announcement, but this effect is preceded by an underperformance of the share price in the 30 days preceding this announcement. This underperformance continues in the 30 days that follow, but in a more moderate way. An improvement in the rating is accompanied on the contrary by an outperformance of the price in the 30 days before the announcement (anticipation effect), by a weak positive impact on the day of the announcement which continues in the following 30 days. Finally, ratings for companies that were not previously rated are accompanied by a positive effect on the price. We also note from this study that ratings reveal new information to investors and, according to the authors, improved visibility is immediately valued by investors. The AMF study (2006) on the French market finally highlights that agency announcements have a greater impact on share prices when the securities are volatile, small and low-rated and when the macroeconomic environment is unfavourable; this study thus shows the variables that can be used as control variables in a long-term valuation model.

3.1.2.2. Analysis of tests of the effectiveness of financial rating as a mechanism of governance of banks

Empirical studies that examine the effect of banking supervision by rating agencies are more recent and very few in number. The study by Goyeau et al. (2001) examined the role played by rating agencies in exercising increased market discipline on banks and other financial intermediaries. Using the event study methodology that is also used to test the information content of ratings, they analyzed the impact of the rating on the stock market prices of a sample of European banks. They conclude that their results do not confirm the information transmission function of rating agencies that would increase market discipline. However, the estimation of Logit models shows that for the categories of banking institutions that are theoretically most marked by information asymmetry (banks with a high level of deposit collection activity) that the market reacts most strongly, and in a desirable way to discipline banks. Similarly, Gropp and Richards (2001) analyzed stock returns and bond spreads for a sample of European banks. They found a significant reaction of stock prices to rating announcements, but no significant reaction

for bond spreads. They explain the relative lack of reaction of spreads by the “too-big-to-fail” effect; and conclude that rating agencies play an important role in obtaining and synthesizing non-public information about banks, information that is useful at least to shareholders. From these two studies, we conclude that bank shareholders pay attention to bank ratings, the influence of bank ratings on their value (at least in the very short term) can also be direct, that is, it does not necessarily result from an anticipation of the increase in the cost of present and future debt. However, in these studies, the authors use the same methodologies that are used to examine the informational influence of the rating, and that do not allow us to know the long-term effect that interests us. In order to overcome the limitations of previous studies, we will examine bank ratings in depth to confirm our intuition that a long-term influence of ratings is possible.

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3.2. The contribution of the neo-institutional theory

3.2.1. The institutionalization of rating in the banking sector

3.2.1.1. The normative and cognitive nature of bank rating

These two dimensions are present in the financial rating activity, because by publishing their opinions as well as the rating methodology, the rating agencies establish rules that they then make available to the public, thus allowing everyone to acquire knowledge in the field of credit risk assessment.

Indeed, as we have tried to explain previously, the rating agencies are like a private authority, integrated into the governance of banks. They establish a standard, a solvency norm by publishing the criteria that guide them in the rating process. This standard would be based on the deep expertise that the rating agencies have accumulated for almost a century by observing the determinants of credit risk (Kerwer, 2001) [1], since the beginning of the financial rating activity. This would be a great influence on the organization of standards, the definition of practices conducive to greater solvency from the point of view of the rating agencies. As noted earlier in this article, borrowers use the rating to assess the consequences of any event on their creditworthiness; investors use it as a model for their own risk assessment activities. Through the published bank rating methodologies, the rating provides a set of criteria that define, for the general public, what a bank's credit quality or signature quality is and how it can be strengthened.

In order to disseminate their practices, rating agencies also offer training seminars on credit assessment. On the Moody's website, for example, we can read: "Moody's, through its credit analysis program, puts its know-

how at the service of professionals responsible for assessing the credit quality of banks in Europe, the Middle East and Africa. With a coverage of approximately 425 institutions, Moody's ratings provide a universal rating system allowing a homogeneous assessment of credit risks across sectors and countries." The Fitch agency, which positions itself as a specialist in banks and other financial institutions, offers, among other things, a course in financial analysis of banks.

The fact that major private economic and financial players (companies, banks, insurance companies, investors) often base their decisions on the ratings of the agencies makes the latter omnipresent and reinforces the idea that rating agencies hold the best practice. In 2009, Standard & Poor's presented itself on its website as "the leader in the provision of information and analysis on the financial markets, the principal global source for credit ratings, index development, investment research, risk

assessment and data provision, Standard & Poor's provides financial decision-makers with the understanding they need to decide with confidence" (Bardos, 2009).

3.2.1.2. The regulatory and coercive source of the institutionalization of the rating

It should be remembered that rating agencies, before being considered as official providers of official ratings, must be credible and recognized by the market. This official character gives a certain credibility to the rating, reinforced in September 2006 and June 2007 with the law on the reform of credit rating agencies ("Credit Rating Agency Reform Act") which gives the power to regulate rating agencies to the American stock exchange authority (SEC) already responsible for granting or not the status of External Credit Rating Agency. The influence of the rating has also been reinforced by the regulatory authorities (Gaillard, 2010) and prudential authorities (Partony, 1999) which recognize that rating agencies have a particular capacity to evaluate, perhaps in a more detailed manner, the quality of bank receivables (Naouar, 2007). These authorities recommended that banks use (before the so-called "Basel III" reform), for the calculation of the bank solvency ratio, credit assessments carried out by external credit assessment bodies, i.e. official rating agencies.

Furthermore, as we have noted previously, in the face of the shortcomings of national prudential supervisors who have difficulty in establishing analysis methods adapted to the specific conditions of the bank and its operational environment, the Basel Committee encouraged banks between 1999 and 2009 to be rated, and national supervisory authorities to integrate rating agencies into banking supervision, for practical reasons:

- Rating agencies would have a better knowledge of banks' assets, because they rate companies from all sectors of activity, companies that may be customers of banks or whose securities banks may hold, and participate in the issuance of certain financial products that end up on banks' balance sheets. They would therefore be better placed to analyze risk and carry out an overall assessment of banks.

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- The control of international banks (most of the major American, Asian and European banks) requires an international tool that can adapt to the evolution of practices in the sector, to its environment and that allows banks to be compared, the rating seems to meet these constraints.
 - The use of ratings creates flexible rules that automatically adjust to different levels of risk, while banking regulations themselves are rigid (Basel committee, 1999).
 - The use of a standard that takes into account the recurrence of income (revenues from retail activities as opposed to those from financing and investment banking activities, market... Moody's (2007) seemed to provide a complement to bank supervision, even if the primary purpose of bank supervision by rating agencies is to update their ratings.

This position of the Basel Committee on the usefulness of rating agencies thus joined that of the banking supervisory bodies in the United States which have integrated ratings into their supervision methods since the 1990s (Naouar, 2007).

To convince issuers to request their first rating, rating agencies highlight the interest of the rating that we mentioned previously (broad access to capital and facilitating fundraising).

Ultimately, the rating manages to impose itself in the banking sector, because it mainly comprises, in the sense of Scott (2001), a normative component which is the establishment of a solvency standard, and a cognitive component marked by a very eloquent discourse on the interest of being rated as well as the publication of bank rating methodologies and important training seminars offered by the rating agencies. These rating agencies thus constitute an institution that can have a long-term influence on banks.

After having first analyzed the way in which rating practices come to be legitimized in the banking sector, the second objective of the neo-institutionalist approach in this specific case is to highlight the possible effects of rating on bank management.

3.2.2. The impact of rating on bank management

To provide the elements of response to the question of the possible impact of ratings on bank management, neo-institutional theory mobilizes two approaches: the sociological approach and the economic approach. The sociological approach of neo-institutional theory considers that institutions influence the behavior of individuals. On this subject, many studies in institutional theory of organizations suggest that behaviors are considerably affected by the dominant ideas that are imposed on managers (Scott, 2001) and managers tend to adopt mimetic behaviors in order to be legitimated by their peers and to be valued for what they do (Powell and DiMaggio, 1991). By agreeing to do or be like others, organizations (banks in our case) obtain their approval (Powell and DiMaggio, 1991) from rating agencies. Without wanting to identify here all the responses of bank managers to the pressures of the financial rating in this point, some observations can be made, in this case the consideration of the rating among the financing strategies of banks and some



observable changes at the level of the banks' accounts. Indeed, authors have shown that maintaining or obtaining a given rating is frequently integrated into the objectives of a company and is an integral part of its financing strategy (Gonzalez et al., 2004). In Australia for example, banks seek to maintain sufficient equity to reach an AA credit rating, a rating which corresponds to 0.03% the probability of insolvency (Ford G., Sundmacher M., 2007). The same approach is followed by other banks around the world. Similarly, Jackson, Perraudin, Saporta (2002) show that the requirements of "Basel II" did not really represent an additional constraint for banks, because the requirements of the rating agencies were already higher with regard to capital. During the phase of monitoring banks,

the rating agencies observe, among other things, the level of capital; it can be noted that a low level of capital, from their point of view, is higher than the regulatory minimum.

In October 2009, for example, Moody's placed BNP Paribas' Aa1 senior rating as well as its subordinated debt rating (Aa2) and super-subordinated debt rating (Aa3) under negative outlook. This agency considered that the integration of Fortis Bank could penalize BNP Paribas' profitability. In addition, BNP Paribas' Tier One ratio (9.3% at the end of June 2009) was considered weak for a financial strength estimated at B (high intrinsic financial strength); its intrinsic rating was finally lowered from B to B- (lower end of the category). Furthermore, the significant consideration of the "too big to fail" effect in the reference credit rating of banks may be one of the motivations for the banking concentrations observed for almost ten years. In 2007, the Moody's agency published a study concluding that French banks are well-equipped against the crisis thanks to their diversified model, but also because they are organized as groups and have benefited from systemic support on several occasions in the past. Even if large size does not always seem to protect against bankruptcy (as with Lehman Brothers, which filed for bankruptcy in September 2008), we note that the concentration movements of banks are continuing

The economic approach considers that the institution can influence the economic performance of organizations. According to North (1990), the existence of institutions can reduce uncertainty by structuring daily life, and can also lower transaction costs during the processes of exchange and production, thus playing an important role in the economic performance of organizations. Tolbert and Zucker (1996) consider the search for performance and legitimacy as two complementary objectives, hence the causal link "the institution promotes the economic performance of organizations that behave in accordance with the norm". Following this analytical framework, we can consider that the rating is likely to promote the performance of banks in the long term to the extent that it can encourage managers to adopt healthier management practices and a more efficient banking model. It remains to be verified empirically how this positive influence on the management of the bank is reflected in the banks' accounts, performance indicators and finally on their valuation.

In order to synthesize the main theoretical and empirical contributions in the literature, the following table presents a structured review of studies examining the role of financial ratings, drawing on market informational efficiency and neo-institutional theories.

Table 2: Synthesis of the literature

Theoretical framework	Research focus	Key authors	Methodology	Main findings	Implications for bank governance
Market Informational Efficiency Theory	Role of ratings as informational signals	Fama (1970)	Theoretical framework	Markets incorporate new information conveyed by credible signals	Financial ratings act as information intermediaries influencing investor behavior
	Impact of ratings on bond prices	Hand et al. (1992); Hite & Warga (1997); Wansley et al. (1992); Steiner & Heinke (2001); Creighton et al. (2007)	Event studies on bond markets	Rating downgrades lead to significant negative bond price reactions; upgrades have weak or insignificant effects	Ratings discipline issuers through higher funding costs
		Karyotis (1997); Lantin (2009); Ory & Raimbourg (2011)	Econometric analyses of bond spreads	Ratings significantly affect yield spreads and issuance conditions	Ratings stabilize spreads and serve as reference benchmarks for investors



		Sironi (2003)	Regression models on subordinated debt spreads	Ratings explain spread variations better than accounting variables, except for public banks	Ratings are key indicators of bank risk for private investors
	Impact of ratings on stock prices	Holthausen & Leftwich (1986); Hand et al. (1992); Goh & Ederington (1993)	Event studies on equity markets	Stock prices react negatively to downgrades; reactions depend on downgrade motives	Not all ratings convey the same informational value
		Dichev & Piotroski (2001); François-Heude & Paget-Blanc (2004); AMF (2006); Lantin (2010); Hubler et al. (2013)	Event studies (US & European markets)	Asymmetric reaction: strong response to negative announcements, weak reaction to positive ones	Shareholders are more sensitive to adverse signals
		Jorion & Zhang (2005); Hand et al. (1992)	Rating scale analysis	Stronger effects when ratings move from investment-grade to speculative-grade	Rating level matters for firm valuation
Ratings as a governance mechanism	Market discipline and bank monitoring	Goyeau et al. (2001); Gropp & Richards (2001)	Event studies and Logit models	Shareholders react to rating announcements; bond market discipline limited by “too-big-to-fail” effect	Ratings partially enhance market discipline over banks



Neo-institutional theory	Institutionalization of ratings	DiMaggio & Powell (1983); Scott (2001); Meyer & Rowan (1977)	Institutional analysis	Ratings become institutional norms shaping organizational behavior	Ratings gain legitimacy as governance standards
	Normative and cognitive dimensions of ratings	Kerwer (2001); Bardos (2009)	Conceptual and qualitative analysis	Rating agencies define solvency standards and disseminate best practices	Banks internalize rating criteria in governance frameworks
	Regulatory and coercive dimensions	Basel Committee (1999, 2007); Partnoy (1999); Gaillard (2010); Naouar (2007)	Regulatory analysis	Prudential authorities integrate ratings into capital adequacy rules	Ratings are formally embedded in banking regulation
	Impact of ratings on bank management	Gonzalez et al. (2004); Jackson et al. (2002); Ford & Sundmacher (2007)	Empirical and institutional studies	Banks integrate target ratings into capital and risk strategies	Ratings influence strategic decisions and risk management
		North (1990); Tolbert & Zucker (1996)	Economic-institutional approach	Institutions reduce uncertainty and improve performance	Ratings may enhance long-term bank performance and governance

Source: author's construction

4. CONCLUSION

We note in the literature that the impact of ratings on corporate governance has been observed by studying the information content of ratings, more precisely by studying the reactions of stock prices to different rating events. We conclude from these studies that shareholders are attentive to ratings and to the monitoring of companies by rating agencies. We also note that not all ratings influence value in the same way; shareholders may be attentive to certain ratings more than others.

Concerning the banking sector, shareholders are attentive to ratings and react to rating announcements even in the absence of an observed reaction on bond spreads. The influence of bank ratings on their value (at least in the very short term) can therefore be direct, i.e. it does not necessarily result from an anticipation of an increase in the cost of present and future debt.

Furthermore, explanations for the magnitude of the stock price reaction inform us that shareholders do not stop at the rating category, but are also interested in the notch, which is the finest unit on the rating scale. We also note that, from a methodological perspective, the rating can be introduced into a regression as a dummy variable or transformed into a quantitative variable, using the numerical value of the notch on the rating scale. Overall, previous empirical studies conducted on the impact of very short-term ratings (around rating announcements) on the governance of rated banks seem insufficient to capture all of the capital gains or losses associated with ratings. The absence of reaction (case of "upgrades") or the reactions observed in the short term (case of "downgrades") do not represent definitive measures of the economic impact of the ratings, especially when it comes to long-term ratings permanently displayed by banks and visible at any time, particularly on their websites. These ratings are relatively stable over time and cannot have only a one-off influence.

Despite the insights gained from the literature on the impact of ratings on corporate governance, several limitations remain. Most empirical studies focus on very short-term reactions of stock prices around rating announcements, which may not fully capture the long-term effects of ratings on bank value and governance. Additionally, the heterogeneity of ratings across agencies, types of ratings, or even specific notches suggests that not all ratings have the same influence, yet many studies do not sufficiently differentiate these dimensions. The specific context of the banking sector, characterized by regulatory oversight and prudential supervision, is often underexplored, limiting the generalizability of findings. Market conditions, economic cycles, and methodological simplifications, such as treating ratings as dummy variables or numeric notches, further constrain the conclusions. These limitations point to several avenues for future research. Studies could examine the long-term impact of ratings on bank governance, capital structure, and strategic decisions, while comparing the effects of different agencies and rating types. Incorporating regulatory and institutional factors, analyzing investor behavior, and exploring alternative methodologies, including panel data or qualitative approaches, could provide a more comprehensive understanding. Finally, with ratings

increasingly publicly accessible on banks' websites, future research could investigate how digital visibility and transparency influence stakeholder perceptions and decision-making over time.

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