Split bond ratings:
evidence from the reputations of rating agencies

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Abstract

Previous studies focus on the split bond ratings between Moody's and Standard & Poors as global rating agencies. However, no studies examine the split bond ratings between local rating agencies. This study focuses on the two local rating agencies in Japan to examine the determinants of the split bond ratings and their impact on the cost of debt. Based on credit ratings assigned to newly-issued Japanese corporate bonds during the period 2006-2021, creditworthy firms with ratings from global rating agencies are likely to have split ratings because these firms are weighed more positively by the local rating agency with a lower reputation. In addition, firms with split bond ratings are more likely to face higher yield spreads. These results show that the lower reputations of rating agencies causes split bond ratings, thereby leading to a higher cost of debt.