

CHAPTER SIX : CONCLUSION AND RECOMMENDATION

6.1 Summary and Conclusions

The three major categories of rating announcements i.e initial announcement, upgrades and downgrade showed that the market is efficient as far as the rating announcement is concerned. The t-test stipulated at the confidence level of 95% accept the H null for hypothesis 1 testing the market efficiency and showed that the announcement does not provide any consistent occurrences of significant abnormal returns. Its implying the rating announcement is not disseminating any new information to the investors. However the results proof vice versa for the reaffirmation rating announcement. It shows the market is not efficient in the sense that abnormal returns were noted even after the announcement day. For initial assignments, upgrades and downgrades, the results concurs with the findings of Hetten house and Sartoris (1976) and Kartz (1974).

Hypothesis 2 tested the average impact of bond rating where no significant abnormal returns were noted throughout the window period for initial assignment, downgrade and upgrade. It shows that investors could not benefit by taking positions upon rating announcements except for announcements on reaffirmation rating announcement. The results of testing this hypothesis for initial assignment and upgrades agrees with the findings of Elayan et al (2000) ; Griffin et al (1982) ; Holthausen et al (1986); Zaima et al (1988) ; Hand et al (1992) and Motolsy et al (1995). However in the case of downgrades the results were contrary to the findings of their findings.

It can be inferred that RAM only provided historical information to the investing public. The lagging effect in the dissemination of such information makes them irrelevant at the time of announcement. Therefore there wasn't any reaction in the market place upon announcement for the three ratings namely initial assignment, upgrades and downgrades. With regards to reaffirmations the occurrence of significant positive abnormal returns throughout the event window period may be due to the presence of the element of "surprise". The investing public expecting a downgrade would have reacted favourably upon the reaffirmation announcement.

6.2 Suggestion for Additional Research

The future research can conduct the similar study using the bigger sample size and also considering to use longer time frame to observe any differences in result. The above study is not taking rating watch as one of the major sample. Hence the future study can include the rating watch and analyze the same criteria.

6.4 Implication

Initial assignment, upgrades and downgrades announcement did not provide any reaction from the investing public because of the provision of old information which has become irrelevant at the time of announcement by RAM. RAM has to play proactive role in providing new and relevant information if to be an important player in the equity market like its counter parts in the United States.