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Does Split-Rating Affects Corporate Bonds Yield?

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Abstract

This study investigates the relationship between split ratings and corporate bond yields, aiming to uncover the impact of rating disagreement on corporate bond yields. The analysis focuses on two main hypotheses: Hypothesis 0 suggests that split-rated and non-split-rated corporate bonds of the same credit risk category have similar yields, while Hypothesis 1 proposes that split-rated corporate bonds carry higher yields compared to their non-split-rated counterparts in the same credit risk category. Using a sample of corporate bonds issued between January 2010 and October 2022, the study finds evidence to support Hypothesis 1, indicating that split-rated bonds indeed exhibit higher yields. This suggests that investors demand greater compensation for the risk associated with split ratings, which stems from the informational opaqueness and uncertainty surrounding these instruments. The research also reveals that the magnitude of the difference between split ratings affects bond yields, with larger gaps leading to higher yields. The findings have significant implications for investors and issuers, emphasizing the need for careful evaluation of split-rated bonds and consistent credit ratings. By enhancing our understanding of the relationship between split ratings and bond yields, this research contributes to promoting transparency and informed decision-making in the corporate bond market.

Keywords split rating, bond yields, credit rating adjustments, solicit multiple ratings, credit rating agency (CRA)