Morningstar's Big Move in Credit Ratings Barely Moves Needle

Bloomberg – Brian Chappatta

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Most fixed-income investors can easily rattle off the so-called Big Three — S&P Global Ratings, Moody's Investors Service and Fitch Ratings, which combined represented 95.8% of all outstanding U.S. ratings at the end of 2017, according to a Securities and Exchange Commission report. But after that, the remaining sliver of the market is something of a free-for-all, with firms like A.M. Best Co., DBRS Ltd., Kroll Bond Rating Agency and Morningstar Credit Ratings carving out niches where they can serve as alternatives to the top three. But back to fourth place. Congratulations to those who knew DBRS, formerly known as the Dominion Bond Rating Service. The Toronto-based company, created in 1976 and acquired in 2014 by the Carlyle Group and Warburg Pincus, has a sizable footprint in Canada and, to a somewhat lesser extent, the European Union.

Apparently that mix was alluring to Morningstar Inc., which in addition to equity research also issues debt ratings in the U.S., primarily on asset-backed and mortgage-backed securities. It announced on Wednesday that it had agreed to buy DBRS for $669 million in a transaction that'll be financed with a mix of cash and debt.

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