Eurasian Journal of Business and Economics 2009, 2 (4), 77-94.

SME'S Rating System and Process in Turkey According to the Basel II Settlements

Sinan ASLAN *, **Hatice ELÇİ** **

Abstract

Basel II settlements have a strong influence on the SMEs that are of great importance to countries' economies. Conditions to become an SME have changed and rating of SMEs has become very important with this new settlement. In this study, in order to be awarded high credit ratings SMEs will be evaluated by analyzing this period in accordance with Basel II. The following were studied; the rating period and its requirements under the framework of Basel II, rating of SMEs and the criteria used during this period, credit rating analysis methods under the scope of the rating procedure and principles.

Keywords: *Basel II, rating of SMEs, rating process, credit rating, rating methodologies.*

JEL Classification Codes*:* G20, G21, F34, M16, M21

* Associate Professor, Marmara University, Faculty of Economics and Administrative Sciences, Istanbul, Turkey, E-mail: saslan@marmara.edu.tr

** Marmara University, Social Science Institute, Istanbul, Turkey,E-mail: helci@gmail.com

Introduction

Banking crises that damage countries' economies also create negative effects on financial stabilization. Due to the integration of the developing markets, crises in a financial market have a rapid affect on other markets. Therefore, The Basel Committee has given out The Basel I accord in order to minimize the risk to banks and to create stabilization in financial markets. Due to the fact that technology and financial markets are continuously developing, capital adequacy standards are no longer suitable to make an accurate risk assessments, Basel I has become inadequate and in June 2004 Basel II accord was issued.

Basel II settlements have a strong influence on the SMEs that are of great importance to countries' economies. Conditions to become an SME have changed and rating of SMEs has become very important with this new settlement. With Basel II, the amount of the credit that SMEs will receive from banks will be determined according to the credit rating they have been assigned. Consequently, SMEs that have a high credit rate will be accepted as risk-free, thereby decreasing borrowing costs. In order receive a high rating and to be in accordance with The Basel II Accord, companies should pay close attention to certain criteria during the rating period.

2. Rating of SMEs and Requirements at Basel II

A rating is given to SMEs by rating companies as a result of evaluating financial (evaluating of financial statements as balance of payments, income table) and qualitative (corporate governance, processes…etc.) factors. This degree shows the risk of the credit that bank will offer to SME (Turk Rating, 2007:5).

Rating of SMEs affects the credit price and the amount of capital that the bank should allocate. The credit price and the capital that the bank should allocate are decreasing as much as the rating degree increases (Ural and Demireli, 2009:59-60). The aim to do the rating is to evaluate the risks of the SME objectively. Besides providing a "common language", it causes banks to offer similar pricing for a firm. For this purpose, it is very important that the firms should have the updated rates. In this respect, banks should regularly update the rating degrees of the firms (Babuşcu, 2006:7).

Basel II also provides opportunity to the banks to develop their own rating system to calculate the capital adequacy ratio, and after a transitional period it is advised to banks to use this method. SMEs, which are well managed, financed correctly, and provide transparency by presenting all necessary information timely and sufficiently, would have the possibility to borrow under the best conditions by having a good rating degree potentially (Uras,2007:40).

2.1. Rating Process of SMEs

The ratings of SMEs are the rankings of SMEs' potential success and risk factors by a rating company. Rating companies follows almost the similar processes during rating process. Rating process is the process starting with rating decision taken by the rating company and continuing up to announcement of the rating decision. Generally, the rating process of the companies is composed of an initial meeting, a meeting with the management, a rating decision, and disclosure of the rate and monitoring of the rate (Yalkın, 2007:72). All these steps are summarized in Figure 1.

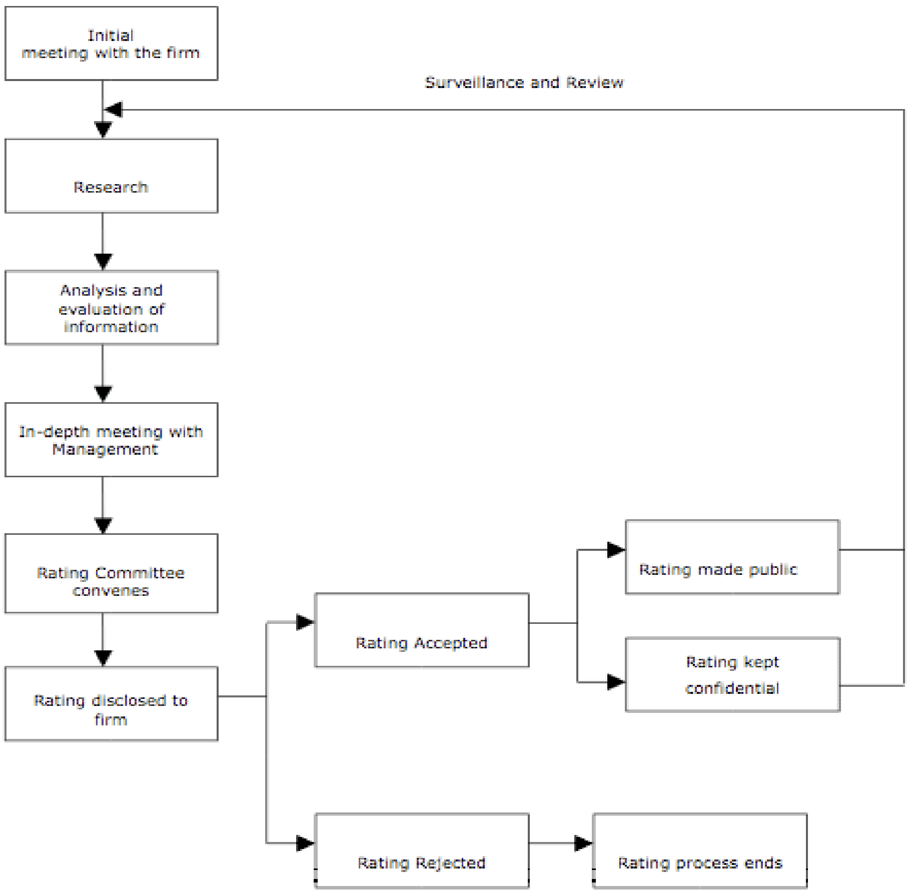

Figure 1: The Rating Process

Source: Turk Rating,http://www.turkrating.com/metodoloji2.asp, p.1 (3 Jun 2009).

i. Initial meeting with the firm;

Even though the information requested in this step would differ according to the rating company; they can be listed below as (Kömürcü,2007:42);

- Financial statements of the last five years as balance of payments, income statement and cash flow, and projections of the coming five years.
- Comparisons with competitors
- Investment plans (capital budgeting) and analyses
- Alternative funding opportunities that can not be shown in the above data
- Other main factors that can affect the rating. These contain division of labor analysis, future forecasts, and security reserve fund and portfolio analysis.

ii. In-dept meeting with management

Rating company requests to prepare some info about the company by selecting expert team to do the rating process before this top level meeting (Yalkın,2007:73).

Conferences start with the presentation of the company and continue with the questions of the analysts. Analysts make detailed analyses depending on the data according to the last five years activity and financial process and three years based planned progress (Boyacıoğlu, 2005: 110).

Managers generally request info to recognize the structures of the companies before the meeting. This info would be summarized as;

- summarized history of the company
- company strategy and philosophy (this part generally presents by general manager or any other top level responsible)
- activity position (competitive power, production capacity, distribution system…etc are discussed in this stage)
- financial management and accounting policies
- subjects carrying special importance like regulating progresses, future to-do, potential gains are discussed in this stage (Babuşcu, 2006: 7)

iii. Rating decision

The experts of the rating company prepare a report in the light of the info gathered in the meeting. In this report that supported by their opinion, a rate is determined and shown to the committee. Expert team who prepared the report gives info about the financial statistics and comparative analysis by making a detailed presentation about the company in the committee meeting. These attainments are generally composed of (SEC, 2003: 25-26),

- evaluating of company's strategic and financial management,
- analyzing the characteristics of the company's sector, competitive situation of the company, production capacity…etc.,
- financial analysis,
- fiscal plans and company policies,
- rate suggestion.

iv. Disclosure of the rate

At the end of the committee meeting rate of the company is determined. The result is firstly disclosed to the company or the institution with the results. Before declaring the rating to the public, company also inspects the legal arrangements and draws up a program that guarantee the legal, valid and obligatory aspects of the commitment. Just after the inspection about the legal subjects, given rates are published to the public (Boyacıoğlu, 2005: 111).

v. Monitoring the rate

The rating company continues to monitor the company or institution after the rating process completed. Companies generally give weight to be in close contact with the management of the company that they have rated. The reason of this is to monitor company's strengths and weaknesses, future projections and targets. Besides, the company is visited at least once a year and it is done meeting with the management. This monitoring period lasts at least for three years (Yalkın, 2007: 76).

2.2. Criteria used in rating

Criteria used in rating are divided into two groups as qualitative criteria and quantitative criteria (Brunner et al., 2000: 5-6).

2.2.1. Qualitative Criteria

They are country risk, industry risk and company risk.

i. Country Risk

Country risk is the possibility to have loss in the international borrowing relations as a result of important occasions occurred at the country in which the credit is opened. During the borrowing of a country or institution, the economic condition of the country is not considered, whereas there are many analyses are made detailed in economic, politic and social sides for financial loan (Şirvan,2007:6).

Generally, two factors are important while measuring the country risk. These are economic and politic risks (Bhatia, 2002: 5).

- Economic risk: it is used for rating the macro economic indicators as country's foreign debt structure, balance of payments, inflation, interest rate, exchange rate.
- Politic risk: because of the possibility to cause changes in investment and cash position value, wars, military coups, civil rebellions, social class disequilibrium in the country, distribution of income defect, divided opinion and ideology between people and actions and economic benefits related to them are seen as politic risk (Halıcı, 2005:105).

ii. Industry Risk

Within these risk factors, company's place in the economy, life cycle, competitive requirements, cost factors, the capability to adapt the changes, commitment to the economic situation, legal arrangements and convenience to enter the industry take place (Kömürcü, 2007:46).

iii. Company Risk

Analysis to define the company risk gathered into three main groups. These are management quality and strategy, evaluating company activities and accounting applications.

Management Quality and Strategy: considered factors are mentioned below as (Halıcı, 2005:124),

- management philosophy and strategy tendencies, success on unpredictable occasions,
- equilibrium between the low term and short term plans,
- relation between organization structure and management strategies,
- financial policies' conservatism and flexibility degree,
- internal audit and financial control processes,
- profitability degree of the important departments,
- if the success of the company depends on some people or not.

Evaluating Company Activities: indicators taken into consideration are as below (Yalkın, 2007:86),

- enterprise life time and the time that it is on the same address,
- diversity of enterprise activities geographically,
- sector-specific development tendency,
- plans to effect and keep competitiveness,

- merging and purchasing decisions,
- rate of capacity utilization in sector general,
- to be effected by possible price competitiveness,
- cycle of the enterprise during the life,
- market saturation rate and indicators about the products and services,
- needs to capacity increase and new investments, and increase on equity to meet these needs.

Accounting Applications: rating companies follow the developments on the account matters of the countries, which they are inspecting in order to follow the developments on the ratings of the companies or institutions. For this purpose, they analyses the agenda and changes by keeping contact with the expert accounting institutions operates in the said country. Besides, even financial accounts of the companies do not evaluated in rating, it is preferred the annual accounts inspected by an independent auditing by reason of analyzing accounting policies and procedures and evaluating the effects of them on company performance and how much correctly they reflect the performance.

2.2.2. Quantitative Criteria

These criteria are the ones to evaluate the companies’ cash resource capability, the structure of earned income, effective resource utilization. These criteria, basically, consider the company’s capability to fulfill its liabilities, in order words, power to increase liquidity. Companies’ cash flow and profitability that they have gained from their activities are evaluated as the most important determinant for the future repayment of the loans and how finance (White,2002:41-45).

The ratios used in company rating are liquidity ratios, financial structure ratios, activity rates and profitability ratios.

2.3. SMEs Rating Procedures and Principles of the Rating Companies

2.3.1. Credit Rating Methodologies

The important components o rating methodologies in terms of the enterprise rating are listed as below;

i. Accounting Standards in Rating of Corporate Credit

In the methodology of corporate credit rating, company’s last three-five years financial tables that are determined by Turkish Accounting Standards Committee and are approved by independent audit companies. Companies who operate less than this period are rated by considering that. It is equipped to do quantitative analysis by doing necessary arrangements on the subjects as rating consolidation basis, inventory valuation method, capital asset valuation and depreciation methods, income and expense items acceptations, cash and investments valuation, credit items provision and valuation, intangible assets valuation and methods, retirement and severance pay obligations, if available other obligations.

ii. Country's Economic, Social and Politic Indicators

Government party line and period of ability to continue in power, expectations of the public and realization aspect, ideological groups' conditions, arrangement of law and its future, bureaucracy, international relations (international integration, relations with the neighbors, relations with the international institutions, effects of foreign political powers, countries' strategically conditions), population increase, distribution, density, homogeneity, income per capita, distribution of wealth, unemployment ratio, social security systems, internal/external/total debt burdens, balance of payment, foreign exchange reserves, flexibility of balance of payments, management of the economics, monetary and fiscal policies, future of economics (energy resources, mineral resources, future of the export)…etc. (Yen-Ting et al., 2001:10-12).

2.3.2. Analyses Methods in Credit Rating

Activities of the company rated; result of credit rating is reached at the end of two different analysis methods even it is in industry sector, public sector or service sector. These are qualitative and quantitative methods. They are also divided inside themselves.

Qualitative analysis methods include (Ünal, 2009:1), corporate management, management quality and shareholding structure quality analysis, and also, risk of business analysis include quantitative analysis method consists of financial risk analysis.

2.3.2.1. Quantitative Analysis Method in Credit Rating

Quantitative analysis looks at the factors that cannot be reached at accounting records, and in which the analyst's comments are important. While determining the company's debt payment power, factors like future investment plans, condition of the sector, and company's condition in the sector are also important.

2.3.2.1.1. Corporate Management, Management Quality and Shareholding Structure Quality in Credit Rating

Corporate management rating is a system evaluating arrangements related with companies' management structure, administration types, shareholding and beneficiaries, and if the transparent and correct informing has been made appropriate to the current modern corporate management policies (Ünal,2009:1).

Points that are important for corporate management are equity, transparency, accountability, and responsibility.

There are principles of shareholders' equities and to be subject to equal process and also the rights of shareholders for taking information and inspection, the rights to attend to board meeting and to vote, and to get share of profit and minority rights are also mentioned in the related arrangement of SPK in Turkey.

In order to inform the public and transparency it is important to present fiscal tables, balance of payment reports and to announce the company targets to the public.

Beneficiaries involve the employments, creditors, customers, suppliers, kinds of non-governmental organizations, labor unions, government and potential investors who can invest this company besides shareholders.

Besides, the rating company undertakes and inspects the function, tasks and duties, activities, formation of the board of directors and financial rights provided to board of directors, and the relations between the directors and the committees founded to help the activities of board of directors.

According to the decisions of SPK taken at the date 07.02.2005, the weights points in rating of accordance management principles are as below;

- for the shareholders 25%,
- for informing public and transparency 35%,
- for the beneficiaries 15%,
- for the board of directors 25%,
- and to present the rating results in accordance with all principles as a whole but with weights separately to the public are accepted.

2.3.2.1.2. Risk of Business Analysis in Credit Rating

Risk of business is the risk to loss of income because of the changes in sector, cyclical fluctuations, changes in customer choices and technological innovations. In addition to this, financial losses caused by the loss of market share at the end of the increase in competitiveness or decrease on the barriers to enter the market are also listed under this risk category.

It is discussed in the risk of businesses analysis in rating institutions' methodology that analyzing the risk of the sector in which company activate, and analyzing the company's competitiveness power and operations together. Consequently, risk of business level is quantified.

Risk of business analysis generally starts with searching the environment of the company. For this purpose;

- country's general condition,
- industry's/sector's characteristics,
- how a future shows the produced goods (or services) are inspected.

In evaluating country conditions, the below scopes are looked;

- Economical developments, economics and financial management quality, economics policies stability, political system stability and government stability, long term trends and expected developments.

In evaluating the risks on the scope of the business or sector that company activates in;

- Conditions special to the sector are looked up. (in terms of both the current risks and the possible future risks)
- Demand expectations – sales and income expectations are evaluated.
- It is tried to be identified what kind of trends sector have (Turkrating 2007a: 87).

i. Sector Risk

Sector risk should be seen as loss of income risk or loss of market share risk. Sector risk covers the risk of confronting with financial loss at the end of the changes in the sector, cyclical fluctuations, and old fashioned goods, changes in customer choices, technological innovations, and decrease on the barriers to enter the market and increase in competitiveness. Factors that should be considered in evaluating sector risk are demand increase, flexibility in pricing, capital intensive, research and development conditions and barriers to enter to the sector.

Basic data related to the company's sector such as local and international sector competitiveness situation, capital intensive, openness and sensibility degree to the cyclical fluctuations, conditions and easiness to enter to the sector, importance of the sector in economy, legal arrangements in sector, technological level factors, cost factors, effects of developments in the sector to the company should be taken into consideration in rating.

In sector risk analysis, scope of the business that a company operates in or what kind of risks are in the sector should be searched. Each sector has conditions special to it and these conditions cover both current risks and possible future risks. For this reason, sector's characteristics are searched with all the aspects (JCR Eurasia, 2009:3).

For example;

- Is this sector an expanding sector or decreasing sector? How progress does demand increase show in this sector?
- How much free to enter and exit the sector? If it is totally free, can new actors affect the company by entering the sector?
- How a future does the demand to the product show?
- Do the sales stable up to today?
- Is there flexibility on the pricing? How much effective is the company on the market pricing?
- Are the goods and services demanded only in the local market? Does it produce to a wider foreign market? Who are the other actors in the foreign market? At which countries does it have the chance of the competitive?
- What is capital intensive?
- At what degree are the research and development activities?

Companies working on the sectors that carry high risk should have stronger financial policies than the companies working on more stable sectors (Turkrating,c, 2009:1).

It is seen that Seller Company's pricing power is high when she has power to decide the price of the goods, in other words, when she is not dependent on the market. Pricing power is high on the branded goods and when seller has the power of monopoly.

New entering goods are also shapes the sales demand in developed industries. It is hard to predict the effect of the new products on the current products, but it has to be taken into consideration in risk of business analysis. Because entering of new products into the market affects the supply demand equilibrium (Kobirate,a, 2009:14).

ii. Company's Competitive Power

Competitive power is measured by looking to the company's strong and weak aspects comparing to the competitors at the similar scale. Especially, company's market share is important. If the company's policies to increase the market share provides economies of scale, increases power of purchasing, and creates advantage on pricing, there may be an advantage. If a few leading firm have higher market share relatively, this analysis could be applicable. Competitive power can be stand out with production efficiency other than company scale in production industry. In this situation it is not important how big the company is. On the other hand, factors like if the machine and equipment used in production are new or old, effectiveness of production period determines the situation of the company in front of the competitors.

Since the cost factor is important at competitiveness, the structure of the basic costs like energy costs, raw material, finance and labor in terms of increasing company's effectiveness are important (Turk Rating, 2007:10).

Technology is also an important factor in terms of competitive power. It is important for company to have advantages about technology and to have monopoly in a definite technology. To have advantage on the production technology provides company to work more effective and to produce with lower costs than the competitors. It is seen that these kinds of companies always invest in research and development.

iii. Company's Competitive Position and Competitor Analysis

To analyze the company's strengths and weaknesses is a key to show how much successful the company will be in their activities. The purpose of the competitive strategy for a business unit is to find a position to defend the company against competitive powers, and to impress them.

To determine the competitive power exposes the company's critical weaknesses and strengths, revives the position in the industry, states the scopes which provide the most return on strategic changes, and the scopes in which the industrial innovations will be of basic importance as opportunity or threat.

Price, quality, customer services and ability to supply on time and on requested quantity are the typical factors of competition. Price, quality, image, shelf space, product recognition are the reason of the customers to buy a product. Industry type could be also important; the nature of the competition can be changed if the industry is global, developed or developing industry.

According to the corporate credit rating methodology, by entering the data of the balance of payment and of the last three- five year's income statements of the companies, all these indicators created to define the company's competitive power are seen on the system automatically. Last five years data averages are compared by the sector data, consequently they can be turned into the degree in credit rating methodology (Kobirate, 2009:9).

iv. Operational Risk

Operational risk is relatively a new concept. In the last years it is seen that some companies has serious financial losses because of the disregarding the operational risks. In order to state the operational risks, availability of internal process and risks resulted from external factors are evaluated.

Sudden customer losses because of the occasions as fire, earthquake, terror that can create risk on human health and security or error and breakdown on the information and technology systems, and as a result financial losses can be given as example (Turk Rating, 2009: 1).

2.3.2.2. Quantitative Analysis Method in Credit Rating

Analysis based on cash flow is essential. The basic of the analysis is the evaluating the companies' ability to create cash, the structure of the income gained, effective resource utilization. Companies' cash flow and profitability ratios are the most important indicators of how they will finance their activities and debt refund (Karakurt, 2007:87).

Quantitative analysis method consists of financial risk analysis. Financial risk analysis covers the building relation between the accounts on the financial tables and doing and interpreting the measurements. Future predictions are made by evaluating company's past and current period performance. In financial risk analysis, some ratio analyses are made to measure some basic subjects mentioned below. These ratios are;

- profitability
- ability to create cash / solvency (off-balance-sheet assets and powers are included)
- capital adequacy
- financial flexibility

i. Profitability:

Profitability is the measure of the value of the firm, volatility, performance and capacity. In the absence of earnings, equity capital will be difficult to come by and debt financing will be hard. Alternately, reliable profits, even if they have been cyclical or somewhat volatile, should enable access to funding on commercial terms. Profitable firms have more flexibility to refund or retire outstanding debts through capital market operations, rather than being dependent on matching internally generated cash flows to debt maturities (Turk Rating, 2009:1).

ii. Cash Flow Generating Ability/Debt Servicing Capacity:

Since the cash flow is provides the main funding in debt refund, cash flow generating ability and debt serving capacity are related with each other (Saharating, 2009:2).

iii. Capital Adequacy:

A firm's capitalization and financial policies often reflects its risk orientation. To the extend which a firm finance its operations with debt rather than equity will influence the analyst's rating recommendation. However, very low financial leverage would not be necessarily the most appropriate management strategy.

Finding additional capital is mostly harder than debt financing, so than a balance should be settled between the two forms of financing. So, before drawing conclusion in the rating analysis, firm's financial policies and capital structure should be well understood (Turk Rating, 2009:1).

iv. Financial Flexibility:

Having financial flexibility provides firms tolerance on debt liabilities and prevents to decrease the credit quality. In debt liabilities, the firm who has conservative capital has more flexibility. Moreover, debt management within a constant area decreases the possibility to confront with an unexpected situation in the balance sheet of the firm. Other factors that affect the financial flexibility are spending revision plan, strong bank relations and relations with the market (Turk Kredi Rating, 2009: 6).

Ratio analysis to evaluate the financial risks vary according to the sector and firm's structure, so the below ratios are the potential ratios;

Liquidity Ratios: They are used to analyze the relations between the current assets and current liabilities of the firm. These rations are also used to measure the ability to pay current liabilities and to determine the sufficiency of the working capital. These rations can be listed as below (Akgüç, 2006:205).

- current ratio (total current assets/current liabilities)
- acid test ratio (current assets – (inventories + prepaid expenses for future months)/current liabilities
- cash ratio (liquid assets + securities)/current liabilities
- inventories / total assets
- inventory dependency ratio (current liabilities – (liquid assets + securities)/inventories)
- short-term account receivables / current assets
- current liabilities / total assets

Financial Structure Ratios: Ratios used to measure firm's resource structure and the power of refunding the long term liabilities are grouped under this group. In other words, they are the ratios to be referred to measure the sufficiency of firm's equity, balance of debt and equity in funding structure and to what kind of current assets or fixed assets used the funds that are created as equity. Shortly, these ratios show the firm's power of refunding long-term liabilities, and they can be classified into two groups as below (Kobirate, 2009:6),

- financial position
    - net worth / total assets
    - net worth / total liabilities
    - tangible assets / equity capital
    - tangible assets / long term liabilities
    - fixed assets / equity capital
    - current assets / total assets
    - net fixed assets / total assets
- indebtedness position
    - leverage ratio: total liabilities / total assets
    - current liabilities / total liabilities
    - long term liabilities / total liabilities
    - long term liabilities / (continuous capital: long term liabilities + equity capital)
    - fixed assets / liabilities
    - fixed assets / continuous capital
    - current liabilities / total liabilities
    - banks loans (including interests) / total assets
    - current bank loans + installments and interests of long term loans / current resources
    - bank loans (including interests) / total liabilities (JCR Eurasia, 2009:4).
- *Activity ratios:* It is used to measure the effective usage of firm's assets (Berk, 2003:46),
    - inventory turnover: (cost of sales (current year) / (last year inventory + current year inventory)/2)
    - receivables turnover: (net sales/total trade receivables)
    - working capital turnover: (net sales/current assets)
    - net working capital turnover: (net sales/(current assets-current liabilities)
    - tangible assets turnover: (net sales / net tangible assets)
    - equity turnover: (net sales / equity capital)
    - asset turnover: (net sales / total assets)
- *Profitability Ratios:* They are the ratios measure if the firm makes adequate profit or not during the inspected period.

  Relation between the profit and capital:

    - After tax profit / equity
    - Pre-tax net profit / equity
    - Economic rent ability: ((financial expenses + pre-tax profit)/total liabilities)
    - Net profit / total assets (after-tax profit / assets)
    - Operating profit / net sales
    - Gross sales profit / net sales

- Net profit / net sales
- Cost of sales / net sales
- Operating cost / net sales
- Financial expenses / net sales

Relation between profit and financial liabilities

- Pre-tax profit + financial expenses / financial expenses
- Net profit + financial expenses / financial expenses (JCR Eurasia, 2009:4).

2.3.3. Determining Rating Degree at the End of the Credit Rating Analysis

The results of the analysis that are mentioned above under three headings as financial risk analysis, risk of business analysis and corporate management analysis, are transferred to credit rating module, and as a result of that by getting the correlation between the arithmetical value of the rate symbols and descriptions that are identified in the rating system and the short term evaluation of these descriptions into consideration, the rating result is reached. If the maturity of the transaction is less than one year the short term, if the maturity is more than 1 year the long term rating degree is reached.

The rating report format includes the rate obtained from the word documents that are prepared especially by the rating corporations and the comments about the data used to obtain this rate. At the end, the results of the report are settled by the rating committee, and the results are written on the casebook.

It is possible to see all the summary of all the works of the credit rating expert. Rating experts present all their works to the credit rating committee by this form, and the credit rating committee forms their judgment (Kobirate, 2009:15).

Lastly, the tables of each rating corporation and banks are settled by different factors, due to the fact that the rates of the companies taken from different corporations will be different from each other. It is important to provide standards on rating factors in order to have stabilization on the system (Ural ve Demirel, 2009:58).

3. Conclusions

Basel II settlements concern the companies who are the customers of the banks even they are issued to discipline the banking and to decrease the risk of banks. According to Basel II settlements, minimum capital adequacy ratio of the banks is determined not only according to the size of the credit but also according to the risk of the credit. In this respect, the cost of risky credits will be high whereas the cost of less risky credits will be lower.

In these new settlements, SMEs should obtain a credit at a bank with the rating. The maturity, amount and interest rate of the credit is determined by rating of the companies. The capital that the bank should allocate is decreasing as the rating of the SME is increasing.

There are quantitative and qualitative criteria in the rating period of SMEs. By using these criteria, rating corporations apply credit rating analysis methods to the SMEs within the framework of their own methodology. In order to get high credit rating and so to provide finance with lower cost, the necessities that SMEs should afford with in the scope of the analysis method are listed as; to act in accordance with corporate management principles, to do independent audits, to position company activities by analyzing company capital requirements correctly. Besides, cash flows should be arranged in line with debit and credit structures, it should be paid attention on asset profitability and equity capital profitability in addition to the liquidity risk.

As a result, SMEs that are of great importance to Turkey's economy should be ready to international competitiveness in the period of acceptance to CE and confirming to Basel II. Even it is hard to be in accordance with this period for SMEs, it should be thought as an opportunity to discipline the companies as financially and administratively in the medium and long term at the end of the new conditions and submissions that of come with the Basel II arrangements. These new conditions are seen as positive effects for the financial power of the sector and the SMEs, and the continuous performance of the companies.

References

Akgüç, Öztin. (2006) Kredi Taleplerinin Değerlendirilmesi, Arayış Basım Yayın, Ed.7, Istanbul.

Aras, Güler. (2007) Basel II Bankacılık Düzenlemelerinin Ekonomiye ve Reel Sektöre Yansıması, Deloitte.

Babuşçu, Şenol. (2006) Banka Şubesi Çalışanları İçin Basel II Düzenlemeleri Çerçevesinde Risk Yönetimi, TBB, Istanbul.

Berk, Niyazi.(2003) Finansal Yönetim, Türkmen, Ed. 7, Istanbul.

Bhatia, Ashok Vir.(2002) Sovereign Credit Ratings Methodology:An Evaluation,IMF Working Paper,02/170,IMF.

Boyacıoğlu, Melek Acar. (2005) Bankalarda Derecelendirme ve Türk Bankacılık Sektörü Üzerine Ampirik Çalışma, Iktisadi Araştırmalar Vakfı, Istanbul.

Brunner, Antje. Krahnen, Jan Pieter and Neber,Martin. (2000) Information Production in Credit Relationships: On the Role of Internal Ratings in Commercial Banking.Center for Financial Studies Working Paper.

Halıcı,Nadide Sevil.(2005)Kredi Derecelendirme Şirketleri,Kredi Derecelendirme Belirleyicileri ve Etkileri,Master Thesis, Erciyes University,SBE,Kayseri.

JCR Eurasia Rating, Firma Derecelendirme Metodolojisi, htpp:jcravrasyarating.com/index.php?sayfa=8&s=0, (accessed June 3, 2009).

Karakurt, Murat Barış. (2007) Basel II, Değişim ve Hazırlıklar, KOBİ'lere Muhtemel Etkileri, Master Thesis,Maltepe University, SBE, Istanbul.

Kobirate, Kurumsal Kredi Derecelendirme İlke ve Esasları, http://www.kobirating.com/Kobirate/Web/trk/AltSayfa.asp?Altsayfa=KurallarVeİlkeler&Baslik=Kobirate Derecelendirme İlke ve Esasları&userid=webadmin, (accessed May 20, 2009).

Kömürcü, Asiye.(2007). Basel II Çerçevesinde Standart Yöntem Açısından Derecelendirme Sistemi ve Bir Uygulama, Master Thesis, Gazi University, SBE, Ankara.

Saharating. Kredi Derecelendirme Metedolojisi, http://www.saharating.com/KREDI/Metodoloji.htm , (accessed June 05,2009).

Securities and Exchange Comission, USA (2003),Report on the Function of Credit Rating Agencies in the Operation.

Şirvan, Nesrin. Kredi Derecelendirme ve Türkiye Ekonomisi, www.iubam.org/rating%20araştirma.pdf , (April 19 , 2007).

Türk Rating (2007), Taysad Üyelerine Basel II'nin Şirketlere Etkileri Konusunda Sunum, www.taysad.org.tr/sunumlar/Basel II_Sunum.doc. January, 2007, (accessed February 19, 2008).

Türk Rating (2009), Kurumsal Şirketler Derecelendirme Süreci, httpp://www.turkrating.com/metodoloji.asp (accessed June 3, 2009).

Türk Kredi Rating (2009), Kredi Derecelendirme Metedolojisi, http://turkkredirating.com/main.php?pageId=9 (accessed June 3, 2009).

Ural, Mert and Erhan Demireli. (2009) Basel II Sermaye Yeterliliği Uzlaşısı'nın Bankalar ve KOBİ'ler Üzerine Etkileri, İktisat İşletme Finans Dergisi 24(274): 54-78.

Ünal, Targan. Basel II'de Kurumsal Yönetişim Kuralları , Kobifinans bilgi serisi II, http://www.kobifinans.com.tr/tr/bilgi_merkezi/02020502/9803 , (accessed May 20,2009).

White, Lawrence J. (2002)"The Credit Rating Industry:An Industrial Organization Analysis"Ratings,Rating Agencies and the Global Financial System.Ed.Richard M.Levich,Giovanni Majnoni,Carmen Reinhart, KluwerAcademic Pulishers.

Yalkın, Mehmet Burak. (2007) Basel II Kapsamında Şirket Derecelendirme ve Bankaların Mali Tahlil Birimleri Açısından Değerlendirilmesi, Master Thesis, Gazi University, EBE, Ankara.

Yen-Ting H, Rudiger Kiesel and William Perraudin.(2002),"The Estimation of Transition Maturices for Sovereign Credit Ratings",Journal of Banking and Finance,26(7): 1383-1406.