

# The Grammar of Rating - Moody's Rating Process

The World Conference on Intellectual Capital  
for Communities

Paris- June 29-30 2006



**Moody's Investors Service**

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# Summary

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- **Definitions**
- **Principal steps**
- **Analytical considerations**
- **Value of a Moody's rating**
- **Contacts**



## Definitions

- A rating is an independent opinion on the capacity of an issuer to meet its financial obligations fully and on time
- It can be assigned to an entity: Issuer Rating
- It can be assigned to a debt security: long or short-term debt rating

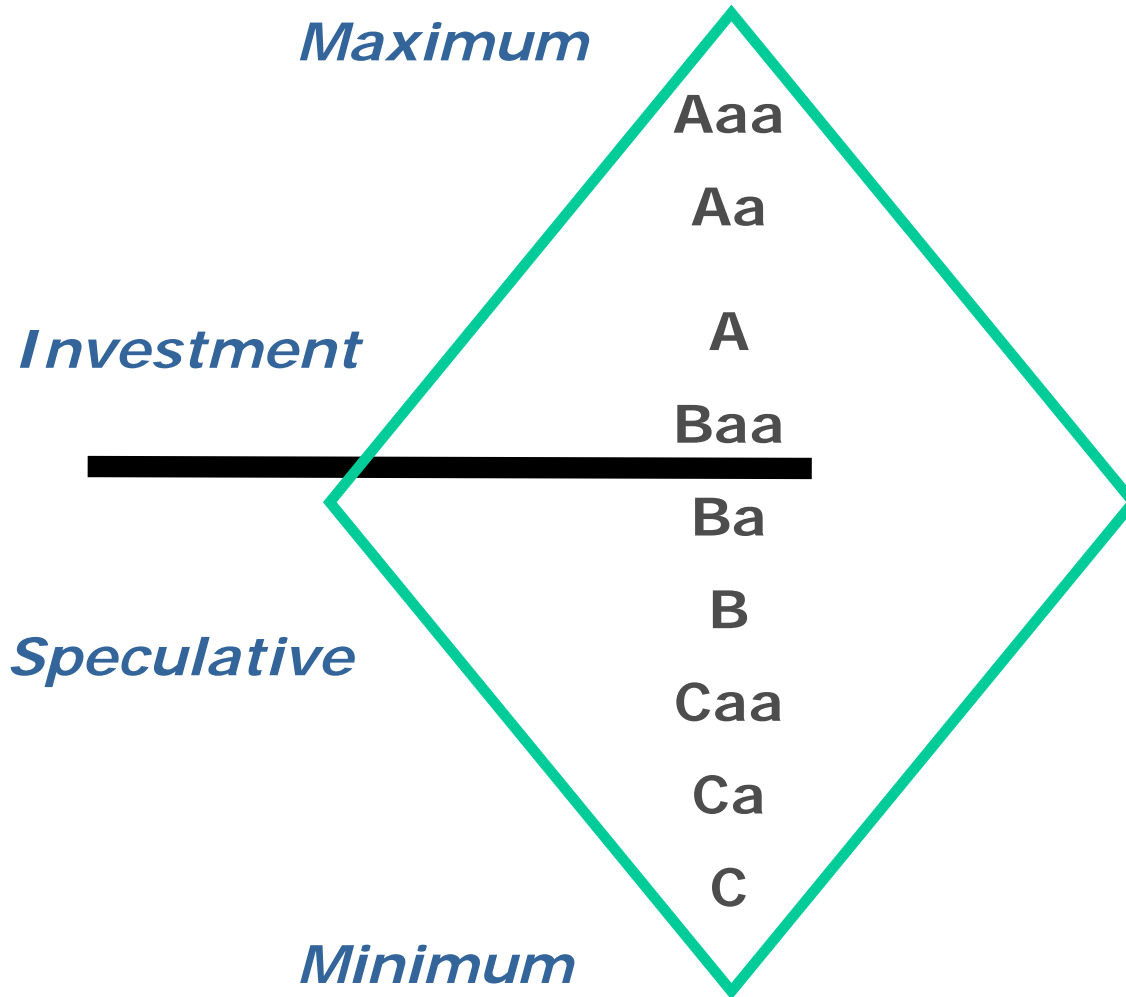


## Characteristics of Moody's ratings

- Independent opinions
- Comparable across industry & geography
- Define risk of default
- Expression of opinion on credit risk alone
  - not a judgment on the “appropriateness” of government policies



# Moody's rating Scale



*A numerical indicator 1, 2, 3 applied from Aa to Ca*



## Main Stages (1)

**Preparation**



**Due Diligence**



**Analysis**



**Credit Committee**



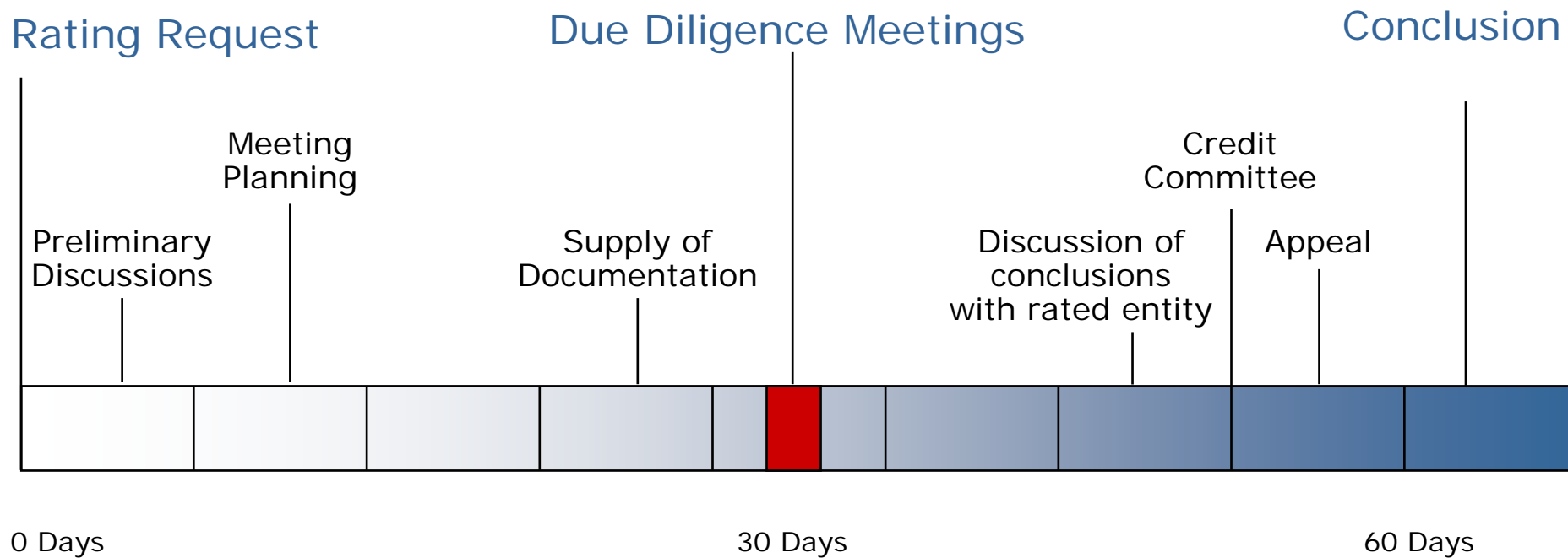
**Appeal**



**Publication of the rating and research**



## Main Stages (2)



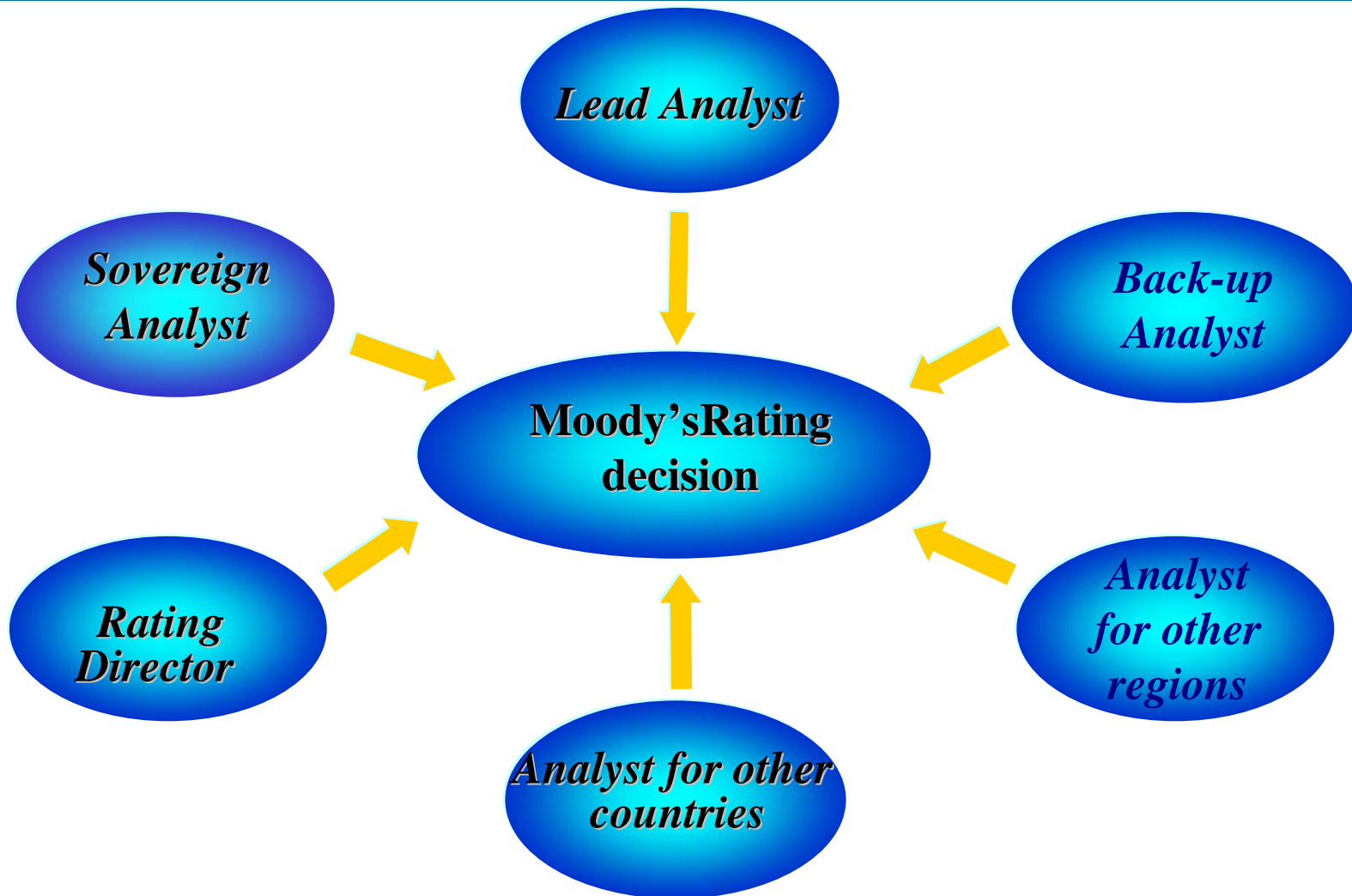
# Rating Committee

- **Membership**
- **' Modus operandi '**
- **Balances local expertise with global comparability**





# Composition of a Moody's Rating Committee



## The issuer's participation in the rating process

- Appoints staff involved in the rating process
- Prepares and communicates the required information to Moody's analysts
- Presents the key credit issues during the rating visit
- Has right of appeal
- Retains control of publication of rating
- In the event of publication, participates in annual meetings and provides occasional updates



# Analytical Considerations

- Institutional structure and legal framework
- Political climate
- Economic fundamentals
- Financial performances and management
- Budget structure: revenue, expenditure
- Indebtedness



## Factors Determining the Rating: « Rating Drivers »

- **Demographics, Population Size & Economic Activity**
- **Assumption of expenditures from Central Govt.**
- **Autonomous Tax & Revenue Raising Capabilities**
- **Progress towards adoption of E.U. Stability Pact Measures**
- **Use of debt for financing for new investments**
- **Management Quality**



# Moody's Principles

- Globally consistent ratings
- Emphasise qualitative aspects of analysis
- Recognise national and local characteristics



## Value of a Moody 's Rating

- **Moody's rates 85% of eurobond market issuance**
- **Moody's disseminates to 7,000 investors and bankers through multi-media channels**
  - **Is a benchmark: provides lenders/investors with the tool to make quick and reliable comparisons of issuers & debt instruments in any market**
  - **Reduces funding costs by wider access to the capital markets**
  - **Offers a distinctive credibility to the issuer's financial communication and promotion**



# Moody's Ratings of Sovereign and Sub-sovereign Governments

- Over 100 sovereign ratings
- Over 250 ratings on sub-sovereign entities in 38 countries
- Over 125 ratings on European sub-sovereign entities today versus 26 in 1993



# Large European Cities rated by Moody's

(February 2006)

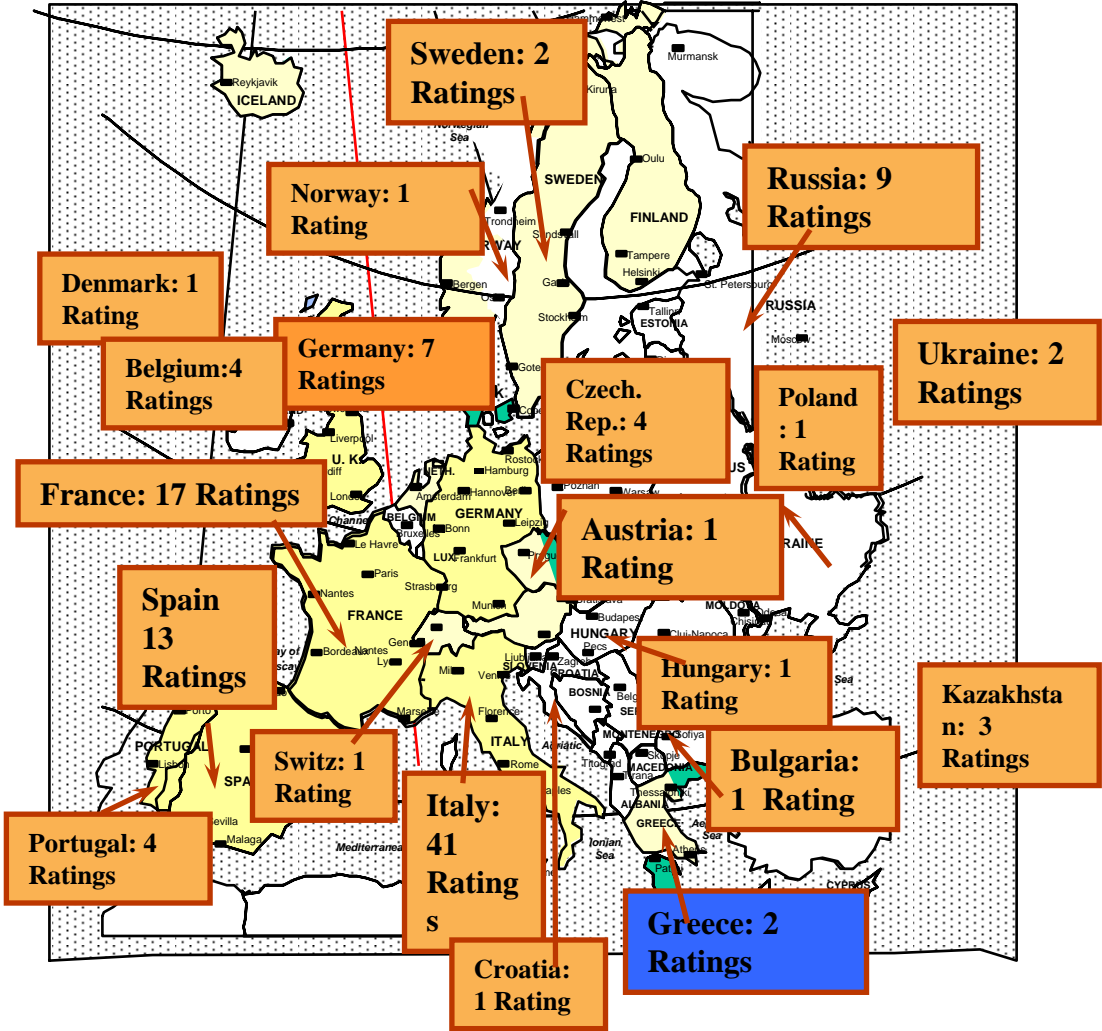
City of Vienna	Austria	Aaa
City of Düsseldorf	Germany	Aa1
City of Stockholm	Sweden	Aa1
City of Oslo	Norway	Aa1
City of Lyon	France	Aa2
City of Milan	Italy	Aa2
City of Barcelona	Spain	Aa2
City of Lisbon	Portugal	Aa2
State of Berlin	Germany	Aa3
City of Naples	Italy	A1
City of Prague	Czech Republic	A2
City of Talinn	Estonia	A3
City of Budapest	Hungary	A3
City of Poznan	Poland	Baa1
City of Zagreb	Croatia	Baa3
City of Moscow	Russia	Ba1
City of Kyiv	Ukraine	B2





# Moody's Ratings for European Regional & Local Governments

December 2005



# The Application of Joint Default Analysis to Government Related Issuers



## Government Related Issuers (GRI)

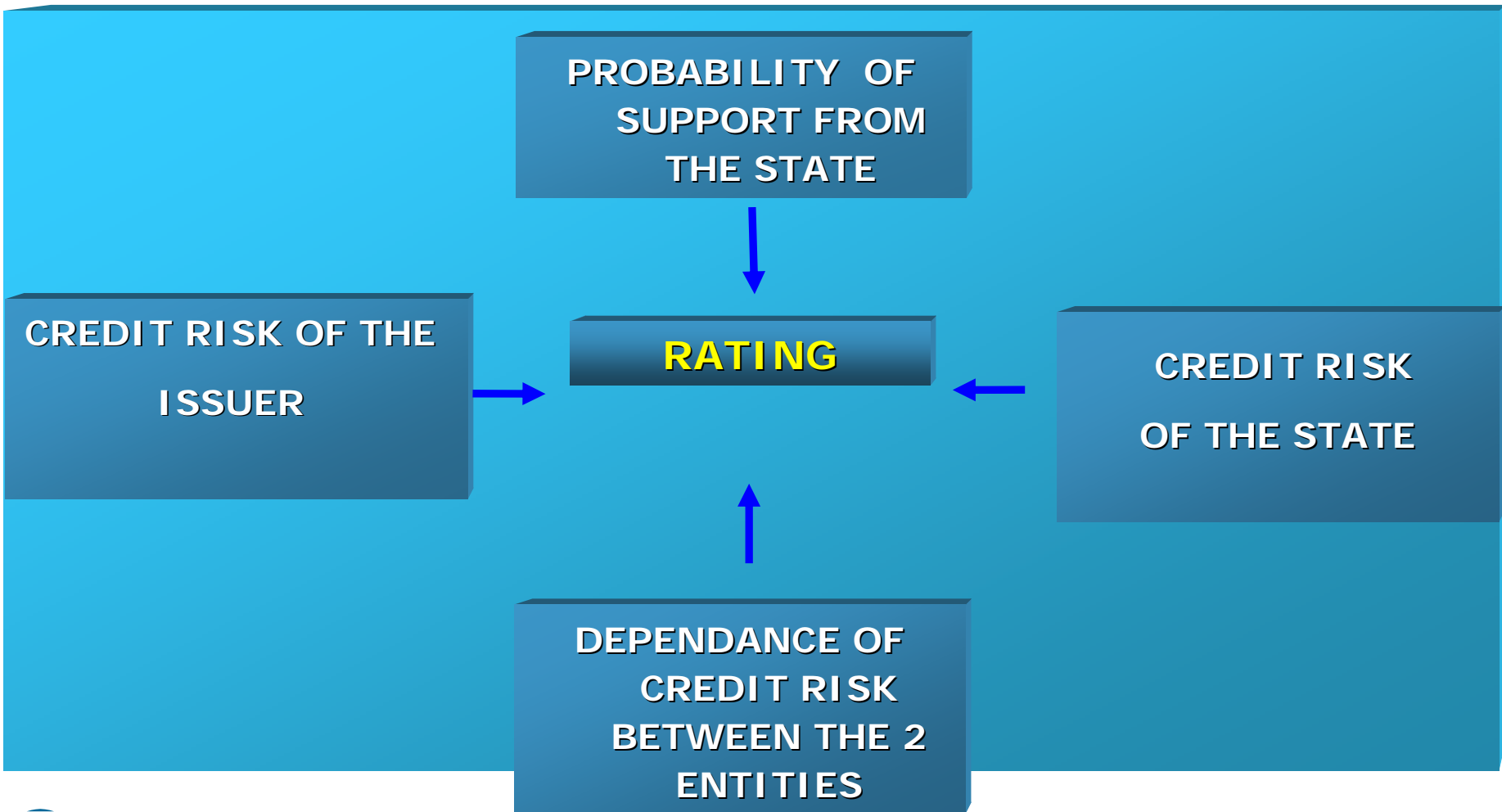
- **June 23 2005 – new analytical approach**
  - An amelioration and systematization of Moody's prior approach to rating issuers and obligations with full or partial support
- **Definition of a GRI**
  - A GRI is an entity with full or partial government ownership or control, a special charter, or a public policy mandate from the national or local government



# Methodology

- **This approach account for:**
  - **The GRI's stand alone risk assessment**
  - **The supporting government's rating**
  - **An estimate of the default correlation between the two entities**
  - **The degree of government support**





- **The stand alone risk assessment of the GRI is assessed.**
- **The level of state support given default is:**
  - **Low: 0-30%; Medium: 31-70%; High 71-100%**
- **The correlation of default risk between the issuer and the state is:**
  - **Low: 0-30%; Medium: 31-70%; High 71-100%**



## Advantages of the new methodology

- The new approach determines with more consistency the impact of state support on the GRI default risk
- The new approach transmits more information concerning the components of the final rating



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