Spread Research

1. SR credit ratings and rating scales
2. SR produces a variety of credit ratings, shown in Column 2 of Figure 2 in Appendix 1. These credit ratings may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)[[1]](#footnote-2):

* **Long-term issuer rating,** defined as measure of the future credit quality of an issuer that is closely linked to a Probability of Default (and not an Expected Loss).
* **Long-term obligation rating,** which is derived from the issuer long term rating on which a notching is applied to a specific debt instrument. This rating takes into consideration a recovery rate in order to capture a loss given a default rate.
* **Short-term issuer rating,** which is a measure of the future credit quality of an issuer that is closely linked to a Probability of Default within a 12 to 15 months period of time.
* **Short-term obligation rating,** which is derived from the issuer short term rating on which a notching is applied to a specific debt instrument. This rating takes into consideration a recovery rate in order to capture a loss given a default rate.

1. SR assigns these credit ratings to the Global long-term rating scale and to the Global short-term rating scale, as illustrated in column 3 of Figure 2 in Appendix 1.

Appendix 1: Credit ratings and rating scales

Figure 2: SR’s relevant credit ratings and rating scales

|  |  |  |
| --- | --- | --- |
| SA exposure classes | Name of credit rating | Credit rating scale |
| **Long-term ratings** |  |  |
| Corporates | Long-term issuer rating | Global long-term rating scale |
| Corporates | Long-term obligation rating | Global long-term rating scale |
| **Short-term ratings** |  |  |
| Corporates | Short-term issuer rating | Global short-term rating scale |
| Corporates | Short-term obligation rating | Global short-term rating scale |

Source: Spread Research

Figure 3: Global long-term rating scale

|  |  |
| --- | --- |
| Credit assessment | Meaning of the credit assessment |
| AAA | Highest credit quality and extremely low business and financial risk. |
| AA | Very large scale and very high level of diversification, very low-risk business (proven resilience through economic crisis), very high FCF and very low leverage |
| A | Large scale and high level of diversification, low-risk business (proven resilience through economic cycles), high FCF and low leverage |
| BBB | Large scale and high level of diversification, low-risk business (proven resilience through economic cycles), positive FCF and/or low leverage |
| BB | Medium/low-risk business (stable and predictable cash flows), positive FCF and/or low leverage |
| B | High-risk business , negative FCF and/or high leverage |
| CCC | Very high leverage, negative FCF, weak liquidity and/or restructuring/default likely |
| CC | Out-of-court consensual restructuring |
| C | In-court restructuring |
| D | Missed payment on interest or principal (post-grace period) |

Source: Spread Research

Figure 4: Global short-term rating scale

|  |  |
| --- | --- |
| Credit assessment | Meaning of the credit assessment |
| SR 0 | Very low short term risk and very strong ability to reimburse short term debt. |
| SR 1 | Low short term risk linked to the issuer’s ability to anticipate short term funding risks. |
| SR 2 | Moderate short term risk linked to potential external risks. |
| SR 3 | Medium short term risk. The issuer’s ability to reimburse its short term debt may be hampered by external or specific risks. |
| SR 4 | High short term risk |
| SR 5 | Very high short term risk / In- restructuring. |
| SR D | Default on the short term debt |

Source: Spread Research

1. As explained in recital 4 ITS, Article 4(1) CRA allows the use of the credit assessments for the determination of the risk-weighted exposure amounts as specified in Article 113(1) CRR as long as they meet the definition of credit rating in Article 3(1)(a) CRA. [↑](#footnote-ref-2)