SESSION THREE
Credit Ratings

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What is a Rating Agency?

An organization that evaluates creditworthiness and assigns an opinion on the likelihood a bond will be repaid in full and on time

- Rating agencies as a business
- The cost and benefit of a rating

What is a Rating?

- An analysis as of a point in time
- An opinion, subject to change
- Not an endorsement, a guarantee, negotiable
- Rating criteria are not prescriptive
- Issuer rating vs. security rating
- Ratings are one of several factors that inform bond pricing
  - Interest rates, generally
  - Supply and demand
  - Investor judgment

Who are the Rating Agencies?

- **Moody's Ratings** (Moody's Investors Service's first bond rating in 1909)
- **S&P Global Ratings** (Poor's Publishing's first rating in 1916; Standard Statistics Company's first rating in 1922; merged to form Standard & Poor's in 1941)
- **Fitch Ratings** (Fitch Publishing Company's first ratings in 1924, recapitalized in 1989)
- **Kroll Bond Rating Agency** (2010, following the financial crisis)

"INVESTMENT GRADE" RATING SCALES	
Moody's	Fitch, Kroll and S&P
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-

The Rating Meeting

- The official statement is the primary vehicle to communicate the credit story, not the presentation book
- When to have a rating meeting, and where to have it if you have one
- What analysts want to hear
  - Framing your story around key drivers
  - Highlight the sunny side, reveal what might not be obvious, own your negatives
- The craft of the presentation: consistency, framing, and the TMI problem
  - What issuers most often get wrong
- What carries into the committee room
  - The analyst as advocate

QUESTIONS?

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