

Role of a Regional Credit Rating Agency

CFA Conference

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Presentation Structure

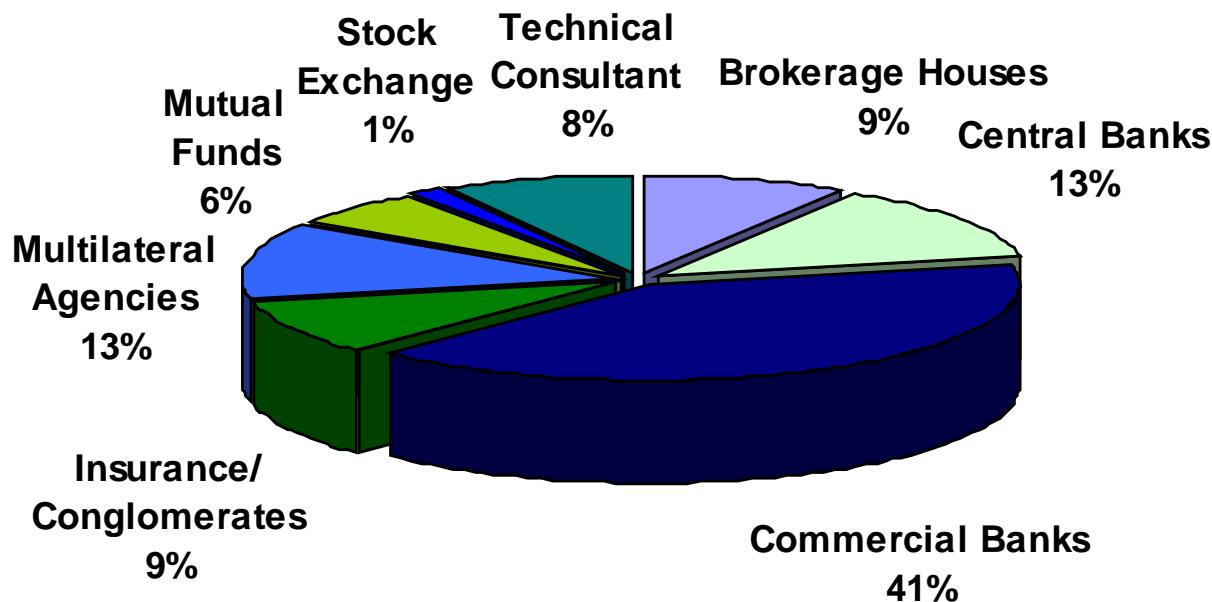
- Introduction to CariCRIS
- Some Rating Fundamentals
- Role of Regional Rating Agency
 - Core
 - Application
 - System
- Use of ratings in other markets
- Summary

Who is CariCRIS?

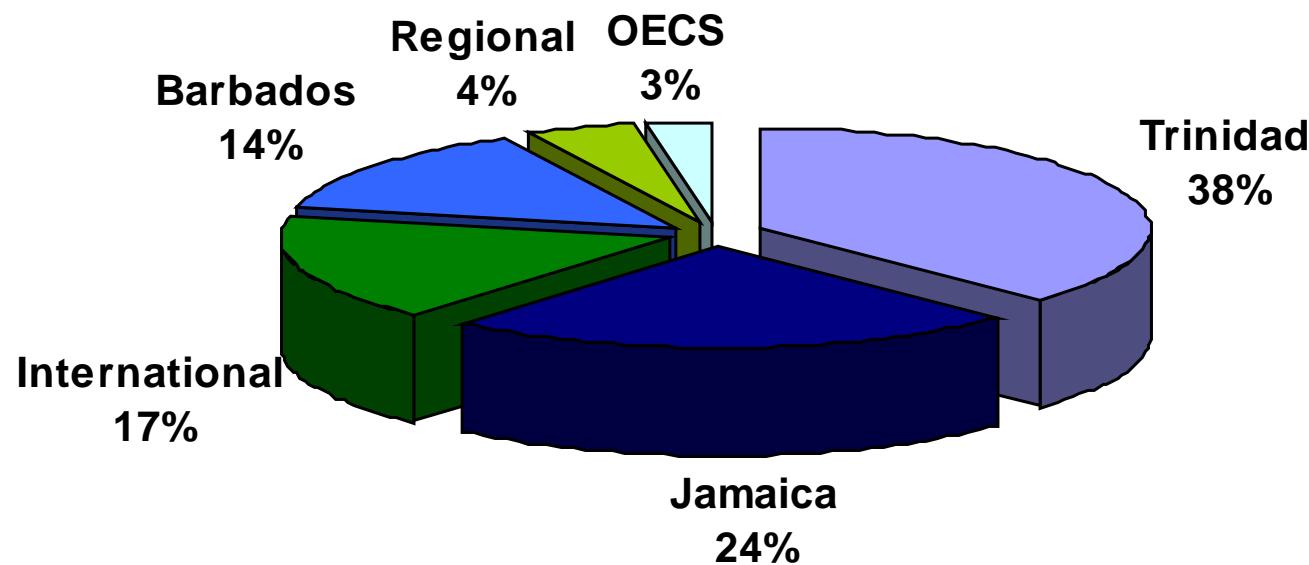


- Caribbean regional credit rating agency
- First regional rating services company in the world

Shareholders by type of Institution



Shareholders by Territory



What is a credit rating ?



What a rating is:

- ✓ **A current opinion on the relative creditworthiness of debt**
- ✓ An issue specific evaluation
- ✓ Aimed at differentiating credit quality

What a rating is not:

- ☒ Not an audit of the issuing company
- ☒ Not a one time assessment of creditworthiness of the issuer
- ☒ Not a general purpose certification of goodness of a company
- ☒ Not a recommendation to buy, hold or sell the rated security

What can be rated?



Debt/Notional debt issued by:

- Sovereigns
- Manufacturing/ Service Companies
- Statutory Bodies/Public Sector Companies
- Financial Institutions & Banks
- Finance Companies
- Credit Unions
- Holding Companies
- Insurance Companies
- Mutual Funds

Such as:

- Bonds
- Bank Deposits
- Commercial Paper
- Term Loans
- Preference Shares
- Secured Debt
- Unsecured Debt
- Mortgage Backed Securities
- Asset Backed Securities
- Structured Obligations

CariCRIS will primarily assign issue specific ratings.

CariCRIS – Rating Scale



- **Regional Scale Ratings**
 - Opinion on creditworthiness relative to other entities in a defined Caribbean region
 - Foreign currency ratings
 - Local currency ratings
- **National Scale Ratings**
 - Opinion on creditworthiness relative to other entities within a specific nation
 - Local currency ratings

Caribbean Capital Markets- Characteristics



- Equity Markets
 - Few listed stocks across the region
 - Low market capitalisation
 - Limited shares available for trading
 - No regional stock exchange
- Debt Markets
 - Dominated by Government issuances
 - Mainly private placements
 - Minimal secondary trading
 - Limited market participants
 - Inconsistent pricing

Role of a Regional Rating Agency In Debt Market Development- At The Core



- Creation of market for corporate credit and pricing of credit risk
 - Readily usable risk indicator
- Creation of secondary market in debt
 - Leads to clarity in pricing of credit risk
 - Creates liquidity in bond portfolios
 - Reduces information asymmetry
- Building of financial awareness
 - Best practices for company analysis & risk assessment

Role of a Regional Rating Agency - At The Application Level



- Estimation of credit risk
 - Unbiased opinion arrived at through structured process
 - Publicly available information
 - Single, easily comprehensible grade
- Basis for scientific risk management in banking sector
 - Better lending decisions, improved loan portfolios and less NPAs going forward
 - Fundamental benchmarking for “internal ratings based” (IRB) (Basel) approach
 - Better pricing of credit risk
- Basis for securitisation
 - Unlocking liquidity in loan/asset portfolios

Role of Regional Rating

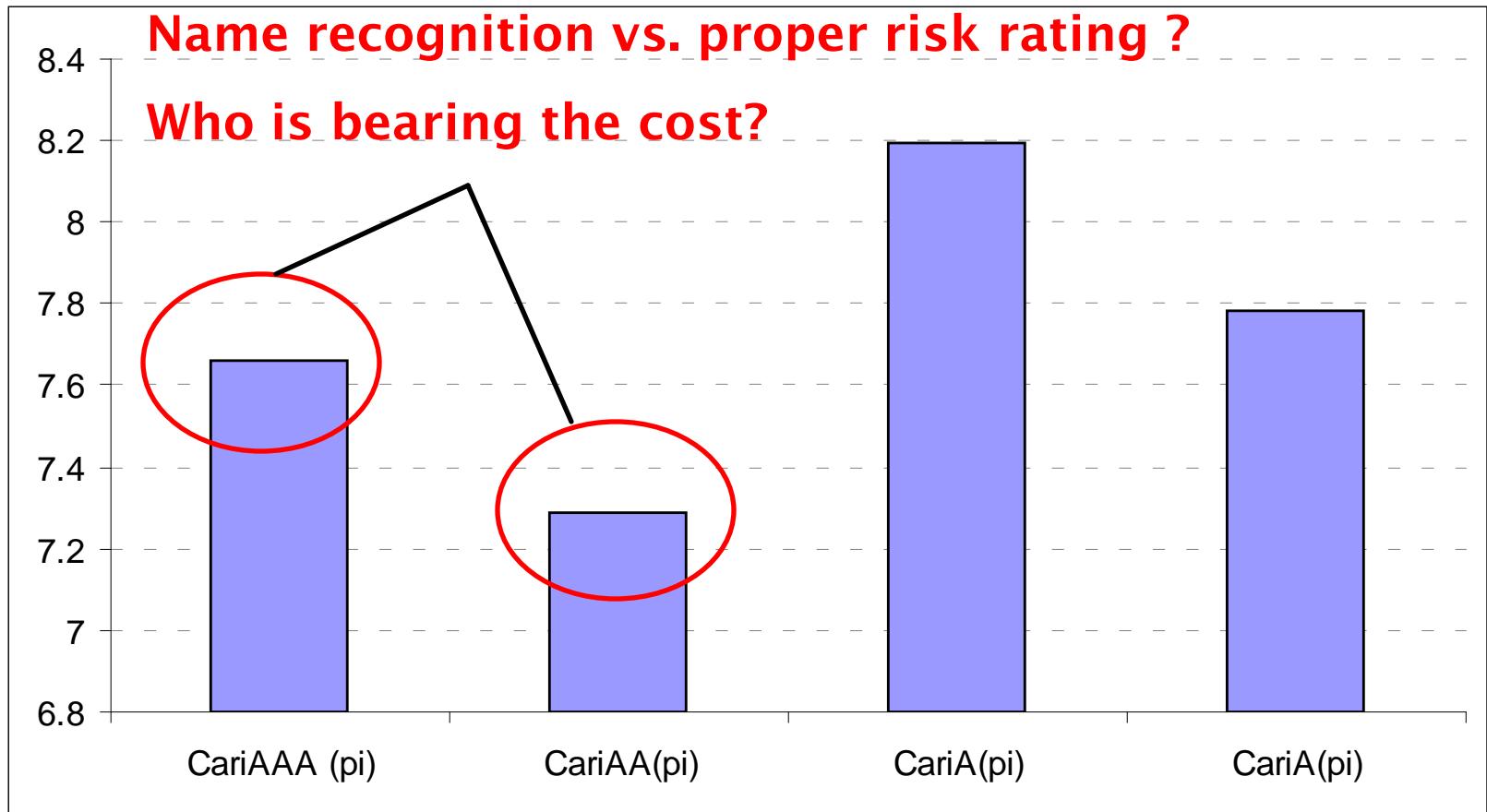
Agency -

At The System Level



- Widen access to funding for smaller businesses
- Effective self-corrective tool for management & businesses
- Compliments regulatory oversight
 - Prioritises regulators' areas of concern
- Enhances market confidence => Expands savings pool
- Safeguarding the market and small investors
- Catalyses Bond Market Development
 - Efficient financial intermediation and credit allocation
 - Alternative funding source to banks or an alternative funding product/channel for banks
 - Reduces financial costs and encourages investment
 - Liquidity & financial crisis management

Sample YTM for Corp Bonds in T&T



For bonds with maturity bucket of 9-11 years

Source: 1. CariCRIS Database 2. Caribbean Bond Market Guide, CMMB;

Benefits of a Regional (CariCRIS) rating



Investors

- Eases risk identification and diversification
- Risk based pricing of Investments
- Greater depth of research, being locally based

Issuers

- A proactive step towards transparency
- An independent, unbiased assessment
- Enhances credibility & acceptability
- Increases access to funding
- Encourages financial discipline

Regulatory authorities

- Investor protection
- Market discipline

Intermediaries

- Fixing coupon rates
- A second opinion

Use of ratings in other markets

Country	Rating Linked Regulation
Philippines	<ul style="list-style-type: none">National Health Insurance Corporation can invest only in companies with investment grade rating (even equity investments).Social security, retirement and separation benefit systems can invest only in investment grade instruments.
Indonesia	<ul style="list-style-type: none">Insurance council 'urges' companies to invest only in investment grade paper.Ratings are part of a system of risk-based capital provisioning for insurance companies.
India	<ul style="list-style-type: none">Pension funds can only invest in securities that have two ratings.Insurance companies can invest only in debt securities with minimum rating of A+.
Mexico	<ul style="list-style-type: none">Private pension funds can invest only in securities with a rating of AA and higher.Superintendency of Pension Funds requires pension funds to be rated, but ratings can remain private.

In Summary..

- Regional credit ratings are a necessary (but not sufficient) condition for capital markets to develop fully and function efficiently.
- Credit markets and specifically capital markets, are an essential part of a modern economy.
- Development of integrated vibrant Caribbean capital markets is a key imperative - needs urgent attention of regulators and market participants in the region.
 - Regulation may need to lead , rather than follow market practices, in small economies.
- Improving economic conditions shows that conditions are ripe to reap the real benefits afforded by efficient capital markets.



THANK YOU

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