

Role of a Regional Credit Rating Agency

CFA Conference

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Presentation Structure



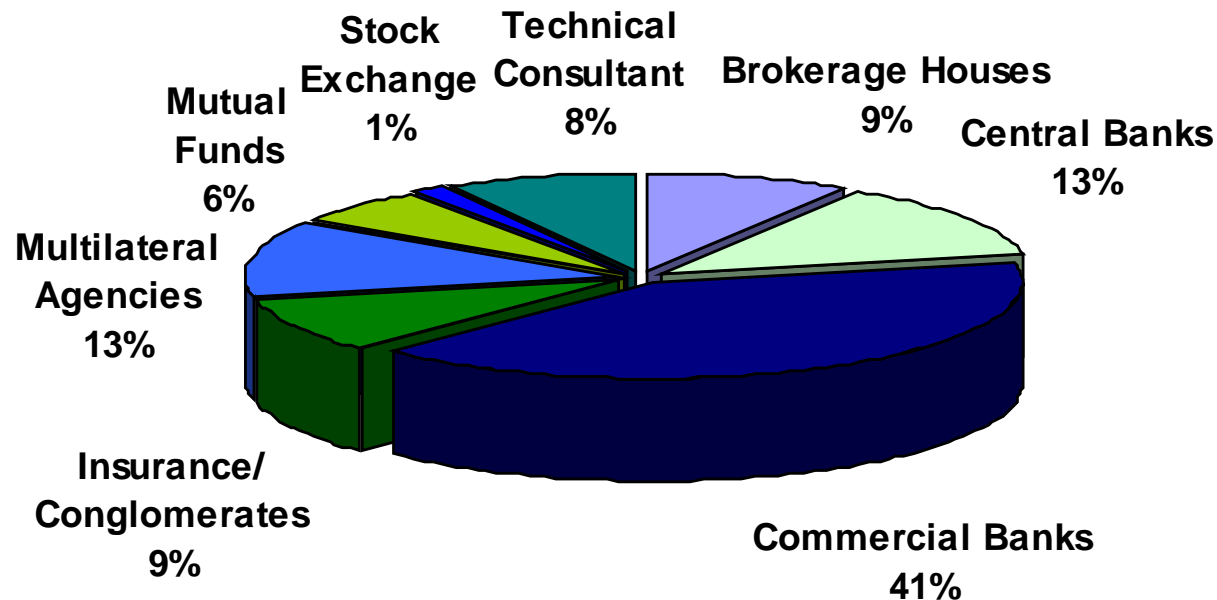
- ❑ Introduction to CariCRIS
- ❑ Some Rating Fundamentals
- ❑ Role of Regional Rating Agency
 - ❑ Core
 - ❑ Application
 - ❑ System
- ❑ Use of ratings in other markets
- ❑ Summary

Who is CariCRIS?

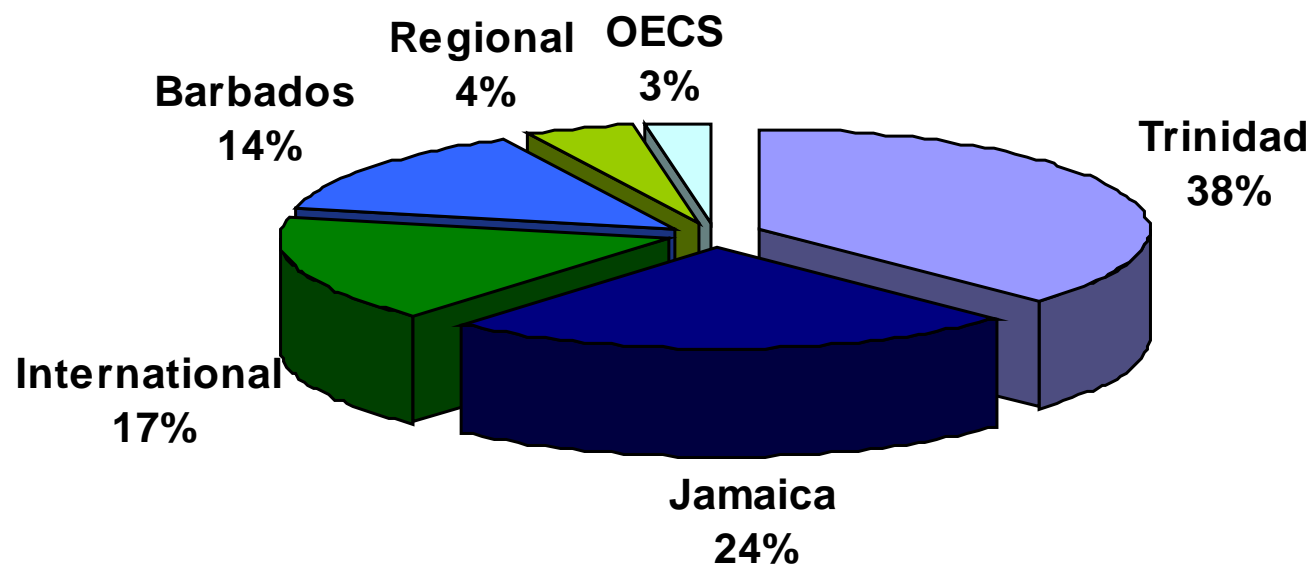


- Caribbean regional credit rating agency
- First regional rating services company in the world

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.

- 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



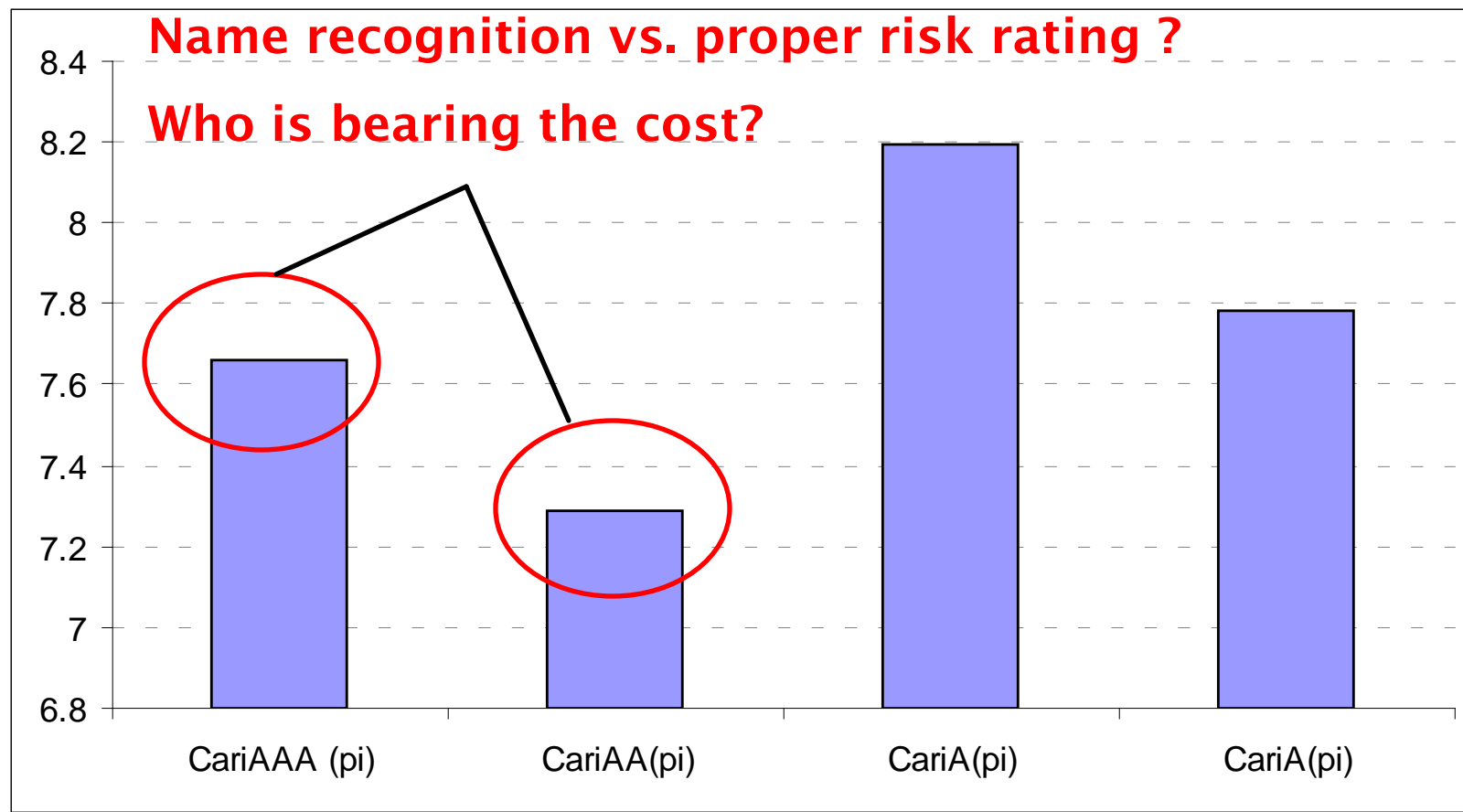
- Estimation of credit risk
 - Unbiased opinion arrived at through structured process
 - Publicly available information
 - Single, easily comprehensible grade
- Basis for scientific risk management in banking sector
 - Better lending decisions, improved loan portfolios and less NPAs going forward
 - 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 bands 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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