

CDS-Implied EDF™ (Expected Default Frequency) Measures

Enhance your corporate and sovereign risk management process by incorporating the collective view of CDS market.

The Challenge: Integrating CDS Market Information into Your Risk Management Process

Although CDS spreads are often used as a proxy for default risk, spreads also reflect systemic risk, regional and sector risk premia, and trading "technicals", distorting the true probability of default. The CDS-implied EDF filters out market "noise" to accurately indicate an entity's default risk.

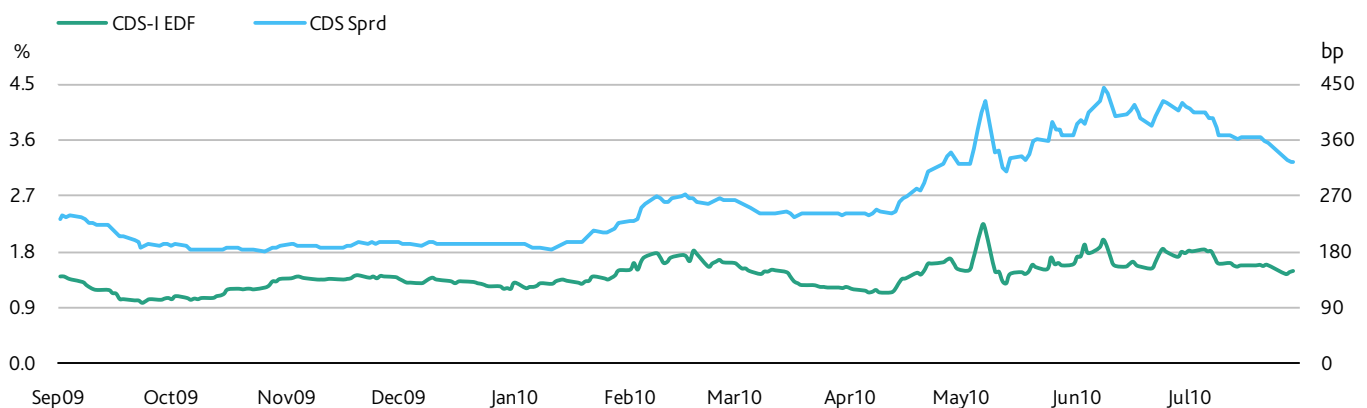
Obtaining an Accurate Probability of Default Measure from CDS Spreads

Due to the liquidity of the CDS market, many participants employ CDS spreads as an indicator of credit risk. While spreads indicate the CDS market's perception of credit risk, other factors, such as regional and sector risk premia, affect the spread as well. Relying solely on CDS spreads, which can overstate or understate the likelihood of default, may lead to highly undesirable outcomes. The CDS-implied EDF effectively filters out other drivers of CDS spreads to reveal an accurate default risk metric for an entity. The result is a forward-looking and objective measure which expresses probability of default as a point-in-time metric.

CDS-Implied EDF measures extend coverage of your portfolio beyond public firms

With CDS-implied EDFs, risk managers can now obtain a probability of default measure for entities that do not have publicly-traded equity, but have active CDS contracts, such as sovereigns, subsidiaries of public firms, and private companies. For firms with both equity-based EDFs and CDS-implied EDFs, there are now two measures of default risk expressed in a common scale.

AVERAGE CDS-IMPLIED EDF AND CDS SPREAD FOR SPANISH BANKS



Key Product Features



Enhanced Coverage

Objective credit measure for over 2,500 entities, including sovereigns, private companies, and subsidiaries



Comparable to EDF measures

Common scale to compare probability of default measures of entities with CDS spreads to public firms



Flexible delivery

Available through FTP or CreditEdge Plus™



Integrated into CreditEdge Plus

Receive e-mail alerts based on user-selected thresholds, and query and chart data to understand key drivers

Practical Applications of CDS-implied EDFs



Early Warning

Detect credit deterioration early and focus on your riskiest exposures



Risk Monitoring

Determine current and potential counterparty exposure



Internal Risk Rating Systems

Supply the market assessment components of your internal risk rating system



Benchmarking and Calibration

Benchmark and calibrate your internal risk rating system using market-based default probabilities

Direct Access to Moody's Capital Markets Research Group

Clients of Moody's Analytics' EDF suite have direct access Moody's Capital Markets Research Group (CMRG) analysts. CMRG's research examines whether signals from the credit and equity markets accurately reflect the risks and investment opportunities across issuers and sectors. CMRG analysts are available to discuss their research, how to apply EDF credit measures, and market signals generally.

About Moody's Analytics

Moody's Analytics helps capital markets and credit risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services, and research, including the proprietary analysis of Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges.

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