MOODY'S ANALYTICS

Complementing Agency Credit Ratings with MIR® (Market Implied Ratings)

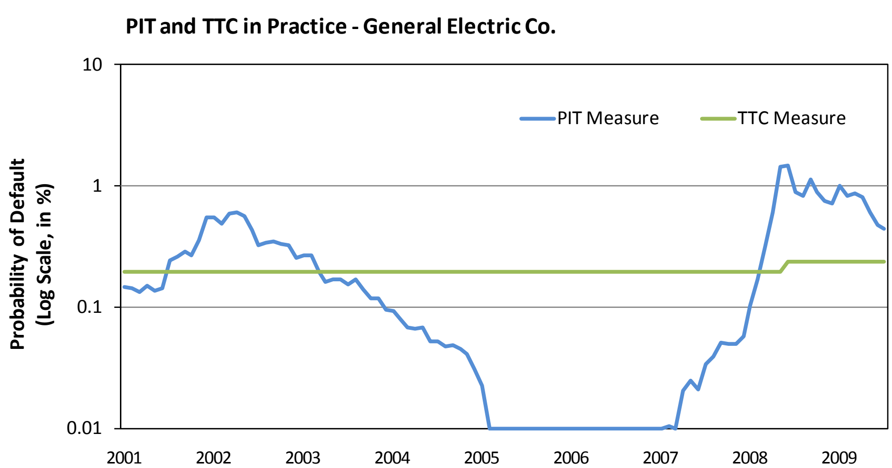
Reconciling Agency Credit Ratings with the Market

Agency ratings and market prices often provide different perspectives on a company's credit outlook. While a growing number of capital markets participants use market signals to enhance their fundamental analysis, combining both approaches efficiently remains a challenge. Moody's Market Implied Ratings (MIR) platform provides a simple framework for synthesizing information from credit ratings and market signals to better identify possible changes in credit quality.

Point-in-Time and Through-the-Cycle Views

Variations in agency ratings and market signals reflect a number of factors. While market-based risk signals are more volatile, point-in-time (PIT) metrics, agency ratings are through-the-cycle (TTC) measures of credit risk. A TTC measure puts more weight on longer-term trends than on cyclical factors, providing a stable indicator of creditworthiness. To a large degree, this characteristic of agency credit ratings comes from their rank ordering of default risk. It makes them well-suited to applications where signal volatility has real costs, such as investment guidelines for bond portfolios.

In contrast, market prices and credit spreads incorporate all available information and investor expectations at a given moment, including systematic, macroeconomic trends—hence the term "point-in-time" indicators. Such information changes constantly, making PIT measures quite volatile, especially when compared to agency ratings. PIT metrics—credit spreads, for instance—are widely used in risk monitoring and investment analysis, as they have high forward-looking content over relatively short horizons. Bond- and CDS-implied ratings, part of the MIR platform, are essentially credit spreads remapped to the Moody's rating scale and thus qualify as PIT measures.



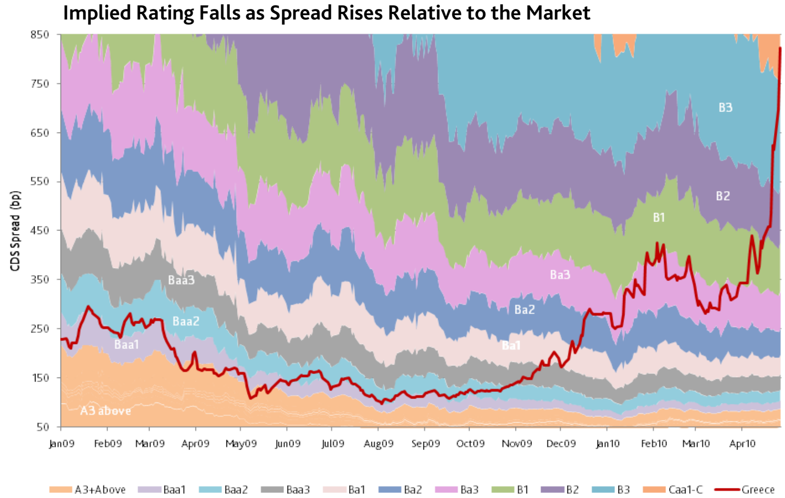
Source: Probability of default data is based on Moody's Analytics EDF™ (expected default frequency) credit measure

Separating entity-specific signals from general market moves

One challenge in using credit spreads as signals of credit risk is that bond and CDS spreads encompass both market-wide risk levels and entity-specific factors. This is especially true during times of stress, when credit markets tend to focus on risk at the sector level. The emphasis on sector considerations is highly relevant for entities such as financial institutions, which need continuous access to liquidity. Maintaining investor confidence is also important for some sovereigns.

By benchmarking individual companies to market-wide measures in the form of median credit spreads, MIR removes the impact of systematic, market-wide shifts. A change in an implied rating reflects the perception of entity-specific—or idiosyncratic—risks. As such, MIR alerts users to possible changes in creditworthiness at an early stage, leaving investors with enough time to perform additional analysis on issuers.

Isolating Risk in Practice - Greece
Implied Rating Falls as Spread Rises Relative to the Market



An Overview of Agency Credit Ratings and Market Implied Ratings from Moody's Analytics

	Agency Credit Ratings	Market Implied Ratings
Definition	Measures of relative credit quality and expected credit loss	Measures of relative credit risk based on bond, CDS, and equity market prices
Purpose	To provide a relative ranking of expected credit loss or credit opinion	To offer a remapping of market prices onto Moody's ratings scale
Uses	» Portfolio and risk guidelines » Relative risk rankings	» Early warning of downgrade and default » Complement agency ratings » Relative value
How is the cycle considered?	Through-the-cycle (TTC) — emphasis on ratings stability	Point-in-time (PIT) — emphasis on expected performance in the short run
Advantages	» Based on fundamental credit analysis » Reflects longer-term trends	» Higher discriminatory power over 1-year period » Quick reaction time

We encourage you to try Market Implied Ratings for yourself. Please contact Moody's Analytics to learn more, arrange a trial or schedule a personal demonstration. E-mail us at clientservices@moodys.com or call one of the numbers below:

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