The Rating Process

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Fitch has standardised procedures for the preparation of ratings and the conduct of rating committees. This report summarises the typical rating process for the majority of Fitch’s traditional international scale credit ratings – procedures may vary including, for example, for the assignment of model-based quantitative ratings as well as asset manager, fund, servicer, operational risk or similar non-credit ratings. The paragraphs that follow should be read in conjunction with Fitch’s “Code of Conduct”, which was published in April 2005 and is available from Fitch’s free public website, www.fitchratings.com.

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Analytical Team

At the start of the rating process each rated entity or transaction is assigned to a primary analyst, who works with the support of a back-up analyst. For corporate and public finance ratings, the primary analyst is responsible for leading the analysis and formulating a rating recommendation, and is typically also responsible for the continuous surveillance of the rating during the life of its publication. While the primary analyst for structured finance transactions is also responsible for leading the analysis and formulating the initial rating recommendations for the transaction, in most cases, they transfer responsibility for the ongoing surveillance of the transaction to a dedicated surveillance analyst after publication. Although Fitch analysts have a wide range of backgrounds, the majority are recruited from banks, insurance companies, investment houses and the financial departments of major companies.

Input from Rated Entities

Fitch’s analysis and our rating decisions are based on information received from all sources. This includes relevant publicly-available information on the issuer, such as company financial and operational statistics, reports filed with regulatory agencies and industry and economic reports. In addition, the rating process may incorporate data and insight gathered by analysts in the course of their interaction with other entities across their sector of expertise.

The rating process also usually incorporates information provided directly by the rated issuer, arranger, sponsor or other involved party. This can include background data, forecasts, feedback on proposed analytical research and other communications. Depending on the availability of management and the frequency or urgency of contact, this information is gathered through face-to-face management and treasury meetings, during site visits or via teleconferences and other correspondence. In general, the main topics for discussion and key questions are provided in advance of any management meetings and an agenda is established to ensure a productive dialogue. However, additional questions can arise during the course of discussions.
With regard to corporate and financial institution ratings, an analyst’s main dialogue will typically be with senior executives from the financial departments of a rated entity, such as the chief financial officer or group treasurer. Nonetheless, they may also have discussions with senior strategic management, including the chief executive officer and chief risk officer where appropriate, as well as senior operational managers. For sovereign rating visits, analysts will meet with key policymakers and senior representatives of various public sector institutions, such as the finance ministry and the central bank, as well as a number of informed outside observers of the political, economic and policy environment. Structured finance analysts will typically hold a dialogue with transaction arrangers and other agents of the issuer or originator, which in some cases will include site visits, on-site portfolio or servicer reviews and similar face-to-face discussions.

For entity ratings, while historical performance often provides a starting point for our analysis, the outlook for the entity is the primary consideration in the determination of the rating. As such, Fitch will take into consideration both Fitch’s and, where appropriate, the entity’s medium-term projections of operating and financial information. These forecasts are used not so much as point estimates of financial parameters, but rather to provide a “road map” of the entity’s direction and the financial strategies that the entity is likely to use to achieve its strategic goals. At all times, Fitch must be satisfied that it has sufficient information to form a view on the creditworthiness of an entity or transaction. If Fitch does not have sufficient information either to assign or maintain a rating, then no rating will be assigned or maintained.

The Committee Process

Ratings are assigned and reviewed using a committee process. The primary analyst incorporates the information from their research into their rating recommendation and supporting committee package. During this time, they also typically maintain a dialogue with the entity to resolve any outstanding issues or to request additional information.

Committees consider the information contained in the committee package, and a consensus decision is reached on an appropriate rating, including, where appropriate, a Rating Outlook or Rating Watch designation. Where entity ratings are assigned, the determination of an Issuer Default Rating or Long-term issuer rating is the primary focus of the committee. Issue ratings will be assigned relative to this rating and take into consideration Fitch’s opinion of the recovery prospects of different debt issues in the event of default.

The minimum committee size for rating decisions is generally four analysts, although many committees involve more analysts than this. The committee will generally include at least one analyst titled Senior Director or above. A Senior Director will typically average 6-7 years of tenure with Fitch, and/or a number of additional years of prior experience in the credit markets. The primary analyst for the credit will generally be one of the voters of record. Other voting members are chosen based on relevant experience. Rating committees frequently include analysts from outside the immediate asset class, sub-sector or geographic area of the entity under review, since peer analysis (on a transaction or entity basis) is a central element of the rating committees’ discussions. Analysts joining Fitch are typically subject to a three-month non-voting ‘probationary’ period, but may attend committees as observers.

The rating committee considers the relevant quantitative and qualitative issues to arrive at the rating that most appropriately reflects both the current situation and prospective performance. If there are no
unresolved issues, a rating is assigned and, to the extent feasible and appropriate, the outcome of the committee is communicated to the entity or, where applicable, their arranger/sponsor. If there are unresolved issues, the committee meeting may be suspended until the issues are resolved and a rating can be subsequently determined. Where an ‘expected rating’ is assigned, this usually relates to a transaction rather than an entity rating. It indicates that the transaction will carry a finalised rating at that level subject to the receipt of final documentation that conforms with the assumptions presented to the committee.

Criteria Development

Rating decisions are made in accordance with the methodologies and criteria applicable to that sector. The methodologies themselves, and the criteria that determine rating levels within each major methodology, are created and revised by the analytical teams. New and revised criteria documents are reviewed by the agency’s global Criteria Committees, covering Corporate Finance, Structured Finance, Public Finance and Emerging Markets. These Committees meet regularly and are composed of senior analysts from a balanced selection of different analytical groups and international offices. New criteria that affect a wider range of analytical areas, or propose a new rating scale, are additionally submitted to Fitch’s multi-disciplinary Credit Policy Board, the senior-most analytical decision-making body of the agency. The Credit Policy Board also serves as an appeal forum for the agency’s Criteria Committees.

Differences of Opinion

If a committee cannot reach a consensus, an appeal procedure exists for a review of the rating. In addition, in certain circumstances, an issuer may also request a review as long as it provides, in a timely manner, new or additional information that Fitch believes to be relevant to the rating. However, rating affirmations, Outlook changes and Rating Watch actions are not generally subject to review at the request of the issuer.

Where a review is considered appropriate, senior analysts not previously involved in the committee process join members of the original rating committee to reconsider the rating analysis. Fitch aims to conclude the review of any new rating expeditiously and the review of any existing ratings within two business days. In cases where the review of an existing rating is not finalised during that period, the rating is typically placed on Rating Watch Negative. As noted in the Fitch Ratings Code of Conduct, Fitch reserves the right to publish a public rating if circumstances warrant, even though a review may be in process.

Appendix A illustrates the credit rating and appeal process in more detail.

Access to Confidential Information

Analysts at Fitch regularly have access to confidential information. This is treated with appropriate sensitivity in accordance with Fitch’s confidentiality policy (Fitch Ratings Worldwide Confidentiality, Conflicts of Interest and Securities Trading Policy), which is available from our free public website. Importantly, users of our ratings should be aware that the analysis and committee decision for all Fitch ratings is based on all information known to Fitch and believed by Fitch to be relevant to the rating decision. Therefore, information shared with one analytical group may be shared internally with another group if it is considered relevant.
Users of ratings should nonetheless be aware of the general limitations on the nature of the information that rated entities make available to rating agencies. Fitch does not, and has no obligation to, audit or verify the accuracy of data provided. Moreover, issuers may choose not to share certain pieces of information with external parties, including rating agencies, at any time. While Fitch expects that each issuer that has agreed to participate in the rating process, or its agents, will supply promptly all information relevant to evaluating both the ratings of the issuer and all relevant securities, the agency neither has, nor would it seek, the right to compel the disclosure of information by any issuer.

**Surveillance of Ratings**

Unless they are of a ‘point-in-time’ nature, Fitch’s ratings are monitored on an ongoing basis and Fitch is staffed to ensure that this is possible. Analysts in all groups will initiate a rating review whenever they become aware of any business, financial, operational or other information that they believe might reasonably be expected to result in a rating action, consistent with the relevant criteria and methodologies. Thus, for example, an operational or fiscal deterioration, an acquisition, a divestiture, or the announcement of a major share repurchase may all trigger an immediate rating review. Consequently, the review process should be regarded as a continuous one. Ratings are also subject to formal periodic reviews.

**Rating Dissemination**

Following the completion of a rating review, all rating actions for new or existing publicly-rated entities – whether an affirmation, downgrade, or upgrade, and including any decisions taken regarding either the Outlook or Watch status – are published on Fitch’s free public website and simultaneously released to major newswire services. These rating action commentaries provide a brief rationale for the rating decision. The ratings of all publicly-rated debt issues of the issuer are also available from the public website, along with all current criteria and methodologies, and a broad selection of special reports. Access to the public website requires the reader to create a User ID and a password, but is available at no charge.

All public ratings, both of entities and individual debt issues, are also available free of charge from the Ratings Desk, for which contact details can be found on the public website. Analysts are available by telephone, e-mail and at various public forums to discuss the rationale for our ratings. Pre-sale research reports may also be made available on selected transactions.

Fitch makes every reasonable effort to ensure that the time between a rating committee determining a final rating action and the publication of that rating action and related commentary is as short as reasonably possible. Revisions to, or affirmations of, existing ratings generally occur by the end of the following business day at the latest, with many announcements occurring on the same business day. The timing of the announcement for initial ratings may be more flexible on occasion, but Fitch strives to ensure that the timing remains as expeditious as possible.

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1 ‘Point-in-time’ (PIT) ratings would be assigned, for example, to debtor-in-possession financings of bankrupt entities in the US, or in the case of ratings that are based purely on periodic quantitative scoring, such as Q-IFS ratings for insurance companies. Where ratings are constructed on a ‘point-in-time’ basis, this is clearly disclosed in the accompanying rating action commentary. Separate conditions can sometimes apply to the assignment of such ratings, as disclosed in the relevant methodology and, due to their PIT nature, these ratings are excluded from default rate calculations.
The timing of publication reflects the important balance to be maintained between an appropriate time being allotted, to the extent reasonably feasible and appropriate, for the rated entity to review the rating rationale for factual accuracy and the presence of confidential information, and the requirements of the users of ratings for timely and objective opinions. Where issuers provide comments on draft commentaries, Fitch duly evaluates this feedback. However, the review is aimed at the removal of any factual errors or references to non-public information and Fitch retains full editorial control over its commentaries.

In addition to our published rating action commentaries, which are the primary method for communication of our rating rationales, a longer research report is published on most issuers and made available to our subscribers. The main language of publication is English, but selected research reports are published in other languages where it is felt that this would be appropriate. On occasion, the rated entity may also distribute copies of its research reports issued by Fitch to banks, investors, customers or other interested parties.

Product Range

In addition to published international and national scale ratings, Fitch offers a number of additional services within the core rating business:

- In certain circumstances, unrated entities may request a credit assessment from Fitch. A credit assessment provides an indication of the likely rating that an entity may receive if it were to request a full rating. The assessment is a rating-level opinion carried out by analysts from the same group that would assign a full rating, and can consider all materials that the requesting entity is prepared to provide for the assessment process.

- Fitch can also provide Rating Assessment Service (“RAS”) opinions to rated and unrated entities under certain circumstances. RAS opinions indicate to the issuer or their agent what rating level that issuer and its obligations would be likely to receive, given a set of hypothetical assumptions provided by the assessed entity. These might include details relating to a reconfiguration of the capital structure or the impact of an acquisition or disposal. This assessment is a rating-level opinion performed by the analytical group responsible for that entity, and feedback is provided to the assessed entity, its agent, or the entity’s majority owner, or their agent, in writing, including a detailed list of assumptions and limitations applied in the assessment.

- Finally, Fitch also provides shadow ratings on entities and transactions where information is limited, where only an abbreviated analysis is required (for example, on one asset which forms part of a diversified pool), or where a specific element of the analysis has been omitted. The qualitative difference between such shadow ratings and a full rating is demarcated with the use of an asterisk (e.g. ‘BBB+*’) and described fully in any communication from Fitch regarding the shadow rating.

In most cases, these opinions — credit assessments, rating assessments and shadow ratings — are provided on a confidential basis. While they may be similar to ratings in many ways, they are not formal ratings and should not be employed by rating users without consideration of any limitations that they may have or any conditions attached to their use.

Fitch also prepares a limited number of private ratings, for example for entities with no publicly traded debt, or where the rating is required for internal bench-marking or regulatory purposes. These
ratings are generally provided directly to the rated entity, which is then responsible for ensuring that any party to whom it discloses the private rating is updated when any change in the rating occurs. Private ratings undergo the same analysis, committee process and surveillance as published ratings, unless otherwise disclosed as ‘point-in-time’ in nature (see above).

### Timing of the Process

Fitch’s global resources allow the agency to respond in a timely manner to requests for ratings and other credit opinions. The actual time taken to assign a new rating can vary, and will partly depend on the time required by the rated party to respond to information requests from Fitch and to review the rating feedback provided by the agency. However, Fitch will make reasonable efforts to accommodate the needs of the entity, both in terms of the timing of any rating visit and the completion of the subsequent review process.

As an example, Fitch typically assumes a timeframe of six to eight weeks to provide a full corporate, financial institution or sovereign rating. Structured finance ratings may be prepared over a longer period, as rating agencies are often involved at an earlier stage in the decision to undertake a structured finance transaction, but Fitch is staffed with sufficient resources to be able to respond in a flexible manner and prepare ratings within a shorter timeframe if necessary. The timings noted provide flexibility in the process and the least time pressure on the resources of the rated party.

### Fees

Fitch has a dedicated business development team that is able to assist with the process of issuers requesting a rating, and to deal with any commercial matters regarding the rating that may arise. Entities wishing to request a rating are encouraged to contact Fitch’s business development staff in either of our head offices, in London and New York, or one of our many local offices. The location and contact details of each of our worldwide offices are available from our free public website.

The fees charged to entities for public ratings can be structured in a variety of ways, typically involving:

- a fixed-rate recurring base fee for an issuer rating or for the surveillance of a rating;
- a once-only transaction fee based on a percentage (typically several hundredths of one per cent) of the nominal value of a given transaction; or
- a combination of the two (i.e. a recurring or once-only fee that covers both issuer and transaction ratings).

Fees related to transaction volume may also be subject to a cap in a given year for a single issuer.

### Rating Withdrawals

Fitch reserves the right to withdraw any rating at any time for any reason, for example, due to a lack of information or lack of market interest. If an analyst is concerned that the information provided is insufficient to make a rating assessment of an entity or transaction, this will be discussed with the sector’s Managing Director and, where appropriate, withdrawal of the rating will be proposed to a rating committee.
Quality Standards

Fitch places a great deal of importance on the consistency of its rating product. Thus, common processes apply for ratings assigned to entities in both emerging and developed markets and between all Fitch offices, irrespective of size or location. As mentioned earlier, the methodologies for each area of our business are generally constructed on a global basis, even where the emphasis added to individual criteria or specific qualitative or quantitative thresholds may vary from one jurisdiction to another. The scrutiny of new methodologies and criteria is carried out on an international basis and, in the case of methodologies significant enough to go before the Credit Policy Board, by senior analysts drawn from all of the agency’s major analytical groups.

Additionally, Fitch operates a central group – the Credit Policy Group (CPG), headed by the Chief Credit Officer – which has a cross-sector mandate to review the performance of the agency’s ratings. This performance review includes both quantitative measures, such as default and transition statistics and timeliness of response to events, and qualitative measures. Ad hoc reviews of individual transactions are carried out by the CPG based on price movements in the issuer’s debt or equity instruments, news-flow or other market indicators.

Fitch also has a compliance examination group that conducts a compliance audit program designed continually to assess Fitch’s compliance with the Code of Conduct and other established policies, procedures and controls with respect to Fitch’s credit ratings and related activities. This group reports to Fitch’s Chief Compliance Officer.
Appendix A: Credit Rating Process Flow Chart

1. Contact between Issuers/Agents of Issuers and Fitch
2. Request and Receive Initial Documents/Information
3. Conduct Initial/Annual Management Meeting
4. Incorporate Feedback and Complete Credit Analysis
5. Create Credit Committee Package
6. Set up Credit Committee Quorum and Attendees
7. Assign Credit Committee Chairperson
8. Distribute Credit Committee Packages
9. Hold Credit Committee
10. Prepare Minute Sheet
11. Communicate Rating Decision to Issuer Management
12. Send Draft Rating Action Commentary to Media Group
13. Send Final Rating Action Commentary to Media Group for Publishing
14. Send Draft Credit Update/Credit Analysis Report to Issuer
15. Publish Credit Update/Credit Analysis Report
16. File Maintenance and Record Keeping

If necessary, involve other groups within Fitch
Legal
Banking, Corporate or Sovereign Teams
Structured Finance (ABS, RMBS, CMBS, CDO)

Internal Appeal?
Issuer Appeal?
Follow Internal Appeal Process Guidelines

2 Provided for illustrative purposes; timing and order of certain steps may vary.
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