

New Criteria for Short-Term Ratings Frequently Asked Questions

What is fundamentally changing in Fitch’s proposed criteria for short term ratings?

The proposed approach amends the correspondence table between Long- and Short-Term ratings to provide a more differentiated analytical view of short-term risk between issuers.

One recurring market question over many years has been whether the traditional correspondence-table approach for our investment-grade short-term ratings allows us to adequately distinguish better short-term profiles from the baseline expected at each long-term rating level. The traditional correspondence table approach has inevitably resulted in a strong linkage between long-term and short-term ratings, especially for our corporate ratings.

Concretely, what is changing?

We are proposing to expand the number of long-term ratings that can correspond to more than one short-term rating from three to five, by permitting Long-Term ratings of 'A' to correspond to 'F1+' (in addition to the existing 'F1' mapping) and Long-Term ratings of 'BBB+' to correspond to 'F1' (in addition to the existing 'F2' mapping).

This change will be the most significant revision of our Short-term criteria since the merger of Fitch’s predecessor agencies in 2001.

Did Fitch consult with any external stakeholders in developing this new approach?

Over the past six months, we have carried out an extensive listening exercise with the market, based upon a discussion paper we published in August 2018. The Exposure Draft published today represents the conclusions of this exercise. Feedback was gathered from a broad range of global market participants – investors, issuers, arrangers, dealers and counterparty risk analysts - mostly focused on corporate and bank ratings.

What feedback has Fitch received?

Overall respondents were broadly supportive of expanding the correspondence options at investment grade. Most were enthusiastic proponents of more discrete information on an issuer’s short-term risk profile, and felt that the current approach from all agencies added only limited incremental analytical value beyond the senior long-term ratings.

What specific factors are used to differentiate issuers’ short term risk profile?

The new criteria take advantage of the significantly greater granularity evident in our asset class criteria, compared to criteria in application at the time of the original introduction of the short-term scale. Fitch proposes specific short-term oriented factors that will be used to distinguish between short-term ratings at crossover points, specifically the “Financial Flexibility” factor for corporates and the “Funding and Liquidity” factor for banks.

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What impact do you expect on the rating portfolio?

Fitch carried out impact studies as part of the development process for the Exposure Draft. We expect around 70 corporate, 86 bank, and 15 non-bank financial institution short-term ratings to change, mostly in the low A and BBB rating categories. In other sectors, we expect a very small number of marginal changes.

Is this change to short term ratings impacting the way Fitch rates vehicles that invest in short term markets?

Money market funds are active users of short term ratings. To rate money market funds, Fitch has previously used notched long-term ratings with its Portfolio Credit Factor (PCF) computation, to provide the missing granularity which our new approach to short term ratings seeks to generate. For the PCF, Fitch is now proposing to use the enhanced short-term ratings instead. A full review indicated that PCF levels would not change materially, and therefore money market fund ratings would not be impacted by the proposed criteria.

What are the next steps?

Fitch invites feedback on the proposed criteria from market participants. Comments should be sent to criteria.feedback@fitchratings.com by Apr. 23, 2019. Fitch will publish on its website any written responses it receives, in full, including the names and addresses of such respondents, unless the response is clearly marked as confidential by the respondent. Upon conclusion of the Exposure Draft, affected ratings will be individually placed Under Criteria Observation (UCO) and we aim to resolve all UCO designations within six months of the publication of final criteria.