

Request for Comment: National Scale Ratings Mapping

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Summary

This criteria article describes Pengyuan Credit Rating's (PENGYUAN's) approach in mapping national scale ratings from PENGYUAN's global scale ratings. National scale ratings are opinions on the creditworthiness of an obligor or obligation relative to other obligors and obligations within a single country. The main purpose of assigning national scale ratings is to provide a greater credit differentiation among obligors and obligations in countries whose country-specific risks result in using only a partial section of the rating scale and ratings that are clustered within a few rating categories. PENGYUAN's national scale ratings are derived based on country-specific mapping tables that determine the relationship between our global and national scale ratings.

To distinguish from global scale ratings, national scale ratings will have a suffix to denote the country (e.g., 'AAArU' for Russia). PENGYUAN's national scale ratings contain both long-term and short-term scale ratings. Credit Watch and Outlooks are assigned in the same manner as we do for our global scale ratings.

Global Scale Ratings and National Scale Ratings

PENGYUAN's national scale ratings and global scale ratings measure the relative creditworthiness based on different scales. Hence, the relative creditworthiness rankings of obligors and obligations within a specific country are consistent under these two approaches.

PENGYUAN's global scale ratings are intended to be comparable across regions, sectors, asset classes and over time. In other words, the creditworthiness represented by an 'A-' global scale rating assigned two years ago on a China's local government bond should be comparable to that of an 'A-' global scale rating assigned recently on the bond issued by a leasing company in Singapore.

In contrast, a national scale rating assigned to an issuer or issuance in one country cannot be compared to a national scale rating assigned to an issuer or issuance in another country, given that national scale ratings only provide opinions on the relative creditworthiness of an issuer among issuers and issuances within a specific country.

Depending on the relationship between global and national scale ratings, the investment grade and speculative grade nomenclature associated with global scale ratings might not be applicable to national scale ratings.

In addition, national scale ratings do not have a direct relationship with historical default probabilities. A historical default probability related to a particular national scale rating can only be derived from the corresponding global scale rating through the relevant mapping table. Country risk has an impact on the creditworthiness of all the issuers and issuances in a given country. The national scale rating can only capture the extent to which an issuer or issuance responds to and mitigates its country risk exposures. Hence, the relationship between global and national scales might change over time. That means national scale ratings cannot directly refer to the historical default probabilities which are associated with global scale ratings.

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National Scale Rating Assignment through Mapping Process

PENGYUAN begins the credit assessment of an obligor or obligation by assigning a global scale rating. The global scale rating is then mapped to a national scale rating based on country-specific mapping tables that determine the relationship between PENGYUAN's global and national scale ratings. Since national scale ratings are typically mapped from a smaller number of global scale ratings, it is possible that the global scale rating maps to more than one national scale ratings. In such cases, a rating committee will decide which national scale rating category is appropriate considering the relative creditworthiness of the obligor or obligation within its global scale rating category.

National scale ratings provide a higher granularity in differentiating creditworthiness. Therefore, the frequency and magnitude of change in a national scale rating for an obligor or obligation could be considerably greater than its global scale ratings. The country-specific mapping tables might be recalibrated if there is a significant change in the global scale rating of the obligor or obligation that has the strongest creditworthiness with a country.

Outlooks for national scale ratings are assigned in the same manner as we do for our global scale ratings. If the Outlook for the long-term global scale rating of an obligor or obligation is 'Positive' or 'Negative', the Outlook for its national scale rating is normally the same. However, if the Outlook for the global scale rating is 'Stable', a rating committee will decide on the Outlook for the national scale rating, which can be 'Positive', 'Negative' or 'Stable'.

Short-term national scale ratings are generally assigned to short-term financial obligations with maturities of less than 365 days. Similarly, as with the approach in short-term global scale ratings, PENGYUAN assigns the short-term national scale ratings based on the long-term national scale ratings and the relationship between our global and national scale ratings (see Exhibit 1).

Exhibit 1: Long-Term and Short-Term Credit Ratings Linkage for National Scale Rating

Long-Term National Scale Rating	Short-Term National Scale Rating
AAAxx	
AA+xx	
AAxx	A-1+xx
AA-xx	
A+xx	A-1+xx or A-1xx
Axx	A-1xx
A-xx	A-1xx or A-2xx
BBB+xx	
BBBxx	A-2xx
BBB-xx	A-3xx
BB+xx	
BBxx	
BB-xx	Bxx
B+xx	
Bxx	
B-xx	
CCC+xx	
CCCxx	
CCC-xx	Cxx
CCxx	
Cxx	
SDxx, Dxx	SDxx, Dxx

Construction of National Scale Mapping Tables

Country-specific national scale mapping tables are constructed individually taking into account each country's local market practices and environments. To create an appropriate mapping table, we need to have a good understanding on the distribution of the global scale ratings within a country, including the average rating and the shape of the rating distribution. This allows us to use the national rating scale more efficiently, and thus achieve greater credit differentiation among issuers and issuances within a country than is possible with global scale ratings. The process of creating the mapping table typically begins with determining the highest anchor point, which is the lowest global scale rating of issuers or issuances in the country corresponding to 'AAAxx' on the national scale. The highest anchor point is generally related to the long-term local currency global scale rating for the sovereign, which usually has the highest rating within the country on the global rating scale. However, in some cases, the highest anchor point might not be at the same rating level as the sovereign rating to accommodate local market practices and enhance mapping stability. The global scale ratings and national scale ratings are expected to converge at the lowest end of the scales. A 'D' rating denotes default on both the regional and national rating scales. The rest of the mapping table, ranging from 'AA+xx' to 'Cxx', are created relative to the two anchor points, and account for the distribution of the ratings and local market practices in the country.

Current Mapping Table

Exhibit 2: Mapping Table for China

Long-term Global Scale Rating	Long-term National Scale Rating
AAA	AAAcn
AA+	AAAcn
AA	AAAcn
AA-	AAAcn
A+	AAAcn/AA+cn
A	AAcn/AA-cn
A-	A+cn/Acn
BBB+	A-cn/BBB+cn
BBB	BBBcn
BBB-	BBB-cn
BB+	BB+cn
BB	BBcn
BB-	BB-cn
B+	B+cn
B	Bcn
B-	B-cn
CCC+	CCC+cn
CCC	CCCcn
CCC-	CCC-cn
CC	CCcn
C	Ccn
WR	WRcn

Related Criteria

Rating Symbols and Definitions, 7 May 2018

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