

Frequently-Asked Questions (FAQs) About Credit Rating

Credit rating is an important component of capital markets development. Through credit rating, improved disclosure and transparency are achieved, thereby making the financial markets more efficient.

The credit rating function in the Philippines started in 1985 when a company then known as Credit Information Bureau, Inc. (CIBI) began rating commercial papers as a requirement for registration with the Securities and Exchange Commission (SEC). Although credit rating has been on-going in the country for 23 years, continuous market education is still necessary. For a better understanding of credit ratings and the credit rating process, here are the **FAQs about Credit Rating**:

A. DEFINITION AND USE OF CREDIT RATINGS

○ What is a credit rating?

A credit rating is an opinion that provides a measure of credit quality. It is an unbiased, independent, third-party evaluation of an issue or issuer. It is a grading system which focuses on a company's capability and willingness to pay its obligations upon maturity.

○ Can a credit rating guarantee that an investor will not suffer losses?

A credit rating is not a guarantee against future losses, nor is it a recommendation to buy or sell a specific security. It is a tool that can be used by investors, regulators, and the general public to augment their own assessment of a particular investment.

○ What are the types of credit rating available?

There are issue credit ratings and issuer credit ratings. There are short-term and long-term credit ratings.

An issuer credit rating assesses a company's capability to pay a specific debt instrument according to the terms (e.g. amount, maturity) of the issue.

An issuer credit rating, also sometimes called corporate credit ratings or company ratings or counterparty credit ratings, is a measure of a company's over-all creditworthiness.

A short-term credit rating evaluates a company's capability to pay a debt security which will mature in 365 days or less.

A long-term credit rating evaluates a company's capability to pay a debt security which will mature in over a year's time.

○ What are credit ratings used for?

A credit rating is typically used to obtain funding from the public. Raising funds from the capital markets provides a company with improved financial flexibility and can allow it to negotiate for better terms and interest rates.

A credit rating can also be used for marketing and benchmarking purposes as through the rating process, a company's strengths, weaknesses, opportunities, and threats will be highlighted.

On the part of regulators and investors, credit ratings can assist in their own evaluation and monitoring of specific companies and instruments. Credit rating agencies typically have access to confidential information which will not be readily available to other market participants.

B. CREDIT RATING PROCESS AND CRITERIA

○ How long does the credit rating process take?

The credit rating process can take anywhere from four to eight weeks from submission of complete information for credit rating. The actual timeframe depends on the type and complexity of the issue and/or issuer.

○ What does the credit rating process consider?

To arrive at the final credit rating, a credit rating agency will consider various qualitative and quantitative factors. These can be generally classified into Business Risk and Financial Risk. Business Risk will cover items like: Industry Characteristics and Prospects, Market and Competitive Position, Operating Efficiency, and Management Quality and Shareholder Strength. Financial Risk will consider the aspects of Profitability, Cashflow and Liquidity, Capital Adequacy and Financial Flexibility.

The general framework for credit analysis applies across industries and sectors although specific rating criteria would be considered on a per sector (e.g. corporates, banks and financial institutions) basis.

○ **How often is a credit rating reviewed?**

The lead analyst for a particular account reviews the specific issue or issuer on a continuous, daily basis. The analyst is expected to keep himself/herself informed regarding developments relating to his or her account.

On a formal basis, updated information is requested quarterly while it is mandatory to meet with a company's management, for as long as there is an outstanding credit rating, at least once a year.

○ **How often and when can a rating be changed?**

A credit rating can be changed at any time depending on prevailing circumstances and/or prospects. Any potential upgrade or downgrade, however, will necessitate meeting or discussing with the company concerned to ensure the accuracy of facts and rating considerations in arriving at the revised credit rating.

○ **How important are management meetings? Who are expected to participate?**

Management meetings are an important component of the credit rating process. These provide opportunities for the Rating Committee to obtain information on an account and to assess the quality of management.

On the part of the company being rated, the Chief Executive Officer and the Chief Finance Officer typically participate in the management meetings for credit rating. Other key officers overseeing the different functional areas (e.g. marketing, operations) may also participate as the company sees fit.

○ **If the company being rated does not agree with the credit rating assigned, what remedies exist?**

Credit rating agencies have an appeal process whereby the company being rated may appeal the credit rating provided that there is new information to be considered.

C. CREDIT RATING FEES

○ **Who pays for the credit rating fee?**

The company applying for a credit rating pays for the fee. The fee is paid upfront, similar to the practice of rating agencies worldwide.

○ **Since the company applying for a credit rating pays for the fee, will this result in conflict of interest?**

Credit rating agencies (both domestic and international) have similar practices of generating rating fees from the companies that they rate. Payment of the fee, however, should not influence or impact the final credit rating that is eventually assigned to the company.

A credit rating agency must be perceived as objective, independent, and transparent, regardless of which entity pays for the credit rating fee.

D. ABOUT PHILRATINGS AND ITS CREDIT RATINGS

○ **Who is PhilRatings?**

PhilRatings is the pioneer domestic credit rating agency in the Philippines. It started providing credit rating services in 1985. It is accredited by both the Bangko Sentral ng Pilipinas (BSP) and the SEC. It is 70%-owned by Motan Corporation and 30%-owned by CIBI Foundation, Inc. It was initially part of a company known as CIBI which was established by the SEC, Central Bank of the Philippines, and the Financial Executives Institute of the Philippines (FINEX) in 1982 to serve as a third-party source of business and credit information.

PhilRatings is a founding member of the Association of Credit Rating Agencies in Asia (ACRAA) which has 25 credit rating agencies in Asia as members.

○ **What do PhilRatings' credit ratings express?**

PhilRatings' credit ratings express probability of default. As one goes down the PhilRatings' credit rating scale from highest to lowest rating, the probability of default increases and capability to pay maturing obligations decreases.

A default occurs when there is non-payment of interest, any amortization, or principal when due.

○ **Why should a company get a credit rating from PhilRatings?**

PhilRatings has a 23-year track record in domestic credit rating. It is knowledgeable about local market conditions, has established ties with market participants and information sources, and conducts its credit rating in a professional, courteous and thorough manner. It has likewise demonstrated its ability to safeguard the confidentiality of information provided for credit rating and to adequately manage conflict-of-interest situations. All confidential information received from a client is not shared with any other party and is just used for internal credit rating purposes. Any Rating Committee member who may also have a "perceived" or "actual" conflict-of-interest, whether for or against, a particular account, does not participate in the credit rating process or credit rating deliberations for the said account.

○ **How much does PhilRatings charge for a credit rating?**

PhilRatings' fees depend on the amount of time and effort needed to complete a credit rating. For issue credit ratings, the fee is tied to the amount to be issued. For issuer credit ratings, it is tied to the asset size. PhilRatings' initial credit rating fees can range anywhere from a minimum of P400 thousand to a maximum of P3 million, considering the type of issue or issuer to be credit rated. Special pricing schemes are likewise available for companies which apply for both issue and issuer credit ratings.

○ **How does a company go about getting a credit rating from PhilRatings?**

The company or its underwriter can get in touch with PhilRatings at (02)812-3210 or at 812-3215. They may also send inquiries to angel_viloria@philratings.com.ph

Upon receipt of the inquiry and after initial queries and discussions, PhilRatings will provide the prospective client with a credit rating proposal and a list of initial information requirements for credit rating. PhilRatings will also meet with the prospect to explain the credit rating process. Once a decision has been reached in terms of obtaining a credit rating, a Rating Agreement will need to be signed by PhilRatings and the client to formalize the rating engagement.

○ **How does PhilRatings publicize its credit ratings?**

PhilRatings publicizes its credit ratings via reports submitted to the SEC, as well as the preparation of press releases and rating write-ups. These are provided to the general public free of charge. Information is likewise available at the company's official website: www.philratings.com

○ **Does the company do unsolicited ratings?**

PhilRatings does not do unsolicited ratings. As a credit rating agency; PhilRatings believes that it is essential to get the full cooperation of the company and to be able to obtain complete information so that a fair and appropriate rating for the issue or issuer can be assigned.

○ **Does the company do private credit ratings?**

PhilRatings can do private credit ratings. Prior to acceptance by any company of their final credit rating, all credit ratings are kept private. Even the fact that the company is undergoing the credit rating process is likewise kept confidential. At the end of the credit rating process, the final credit rating can still be kept confidential provided that the company being rated does not issue debt securities to the public.

○ **Once issued, can credit ratings be withdrawn?**

Ratings can be withdrawn due to the following reasons:

1. Rated debt security has been paid in full upon maturity.
2. Company has decided not to renew its credit rating agreement after the yearly agreement lapses.
3. Company being rated does not provide enough information which PhilRatings can use as basis for regularly updating and monitoring the credit rating.

As much as possible, PhilRatings refrains from withdrawing credit ratings due to lack of information for surveillance purposes.

○ **How many credit ratings has PhilRatings issued to date?**

As of June 2008 and since 1985, PhilRatings has assigned about 368 issue and issuer credit ratings involving about 101 companies, with total issue amount estimated at P358.15 billion.

○ **What types of issues and issuers has PhilRatings evaluated to date?**

PhilRatings has evaluated corporates in various sectors, banks and financial institutions, government institutions, as well as structured finance transactions. It has also rated local government units and insurance companies on a private, confidential basis for exclusive use by specific parties and entities.


○ **How many defaults have there been to date?**

To date, PhilRatings has recorded five defaults out of 368 issues and issuers (representing 1.36% of total), with all defaults occurring after the Asian financial crisis in 1997. Of the total estimated issue amount, accounts which went into default corresponded to debt issues amounting to P6.7 billion or 1.9% of total issue amount.



**The Pioneer Domestic
Credit Rating Agency**

CREDIBILITY
COMPETENCE
INTEGRITY



Who are the members of the Rating Committee?

Mr. Renato H. Peronilla is Chairman of the Rating Committee. Mr. Peronilla was in the banking sector for 39 years, with a focus on Credit, Corporate Banking, Business Systems, among others. He spent 33 years at PCI Bank where he rose to the position of being the only second Executive Vice President since the bank was organized in February 1960. After his stint with PCI Bank, Mr. Peronilla was founding President of Dao Heng Bank (Phils.) Inc. and also became President/CEO of Traders Royal Bank. Mr. Peronilla is a Certified Public Accountant and is a graduate of the University of the Philippines (U.P.).

Ms. Angelica Victoria B. Vilorio is Vice President and Head of Credit Rating and is a member of PhilRatings' Rating Committee. Ms. Vilorio has more than 14 years of credit rating experience, having started as a Senior Analyst handling manufacturing and property development accounts. Prior to joining PhilRatings, she was an Assistant Professor at the College of Business Administration at U.P. Diliman, handling Quantitative Analysis, Marketing, and Management courses. She is a B.S. Economics (magna cum laude) and a Master of Business Administration graduate, also from U.P.

PhilRatings' Rating Committee is composed of both full-time employees and well-established business professionals. The following members complete PhilRatings' Rating Committee:

Dr. Jaime C. Laya ♦ Dr. Renato L. Paras ♦ Ms. Carmelita G. Salgado
Mr. Peter T. Chua, CFA ♦ Mr. Tomas V. Santos ♦ Ms. Lourdes B. Tabarina

All full-time employees of PhilRatings have been trained by international rating agencies on various credit rating topics and rating criteria.

For other inquiries and questions regarding credit ratings and PhilRatings' services, please call (632) 890-5146 or 890-4996.

You can also visit the PhilRatings website at www.philratings.com or e-mail angel_viloria@philratings.com.ph for inquiries.

