INTERNATIONAL GROUP OF RATING AGENCIES

RAEX EXPERT RA RATING AGENTUR EUROPE

Moscow - Ekaterinburg - Almaty - Minsk - Frankfurt - Hong-Kong

Request for comments

Corporate methodological cycle – November 2017

Rating-Agentur Expert RA GmbH invites market participants to provide comments on the proposed changes in the Methodology of assigning Corporate Credit Ratings (hereinafter – Methodology). A package of changes in the Methodology was discussed on the Methodology Committee Meeting held on the 16st of October 2017 and after further developments the version for consultation was approved on the 24th of October 2017 by the independent members of the Advisory board. Approved changes will lead to the following changes in the short version of the Methodology:

1) **We propose to erase all parts and sources of the Methodology which are limited to corporates from one particular country.**

   Rationale:
   The Agency's target is to constantly improve its methodologies so that they can be used for every type of entity regardless of its size, industry or geographical location. In this sense, it is vital to erase all parts and sources applicable only to corporates from one particular country and expand the logic to global entities.

2) **We propose to erase the "Dynamic of assets" subsection from section II. Financial Risk Analysis, in order to comply with best practices in the rating industry.**

   Rationale:
   After internal discussions, research and analysis we have concluded that the dynamic of assets is not a relevant factor to assess the creditworthiness of the company. An increase or reduction of the assets does not represent a risk per se. The positive or negative dynamic of assets is mainly the result of the strategy and operations of the company and cannot be linked to the credit risk of the company.

3) **We propose to erase the "Equity" subsection from section II. Financial Risk Analysis, in order to comply with best practices in the rating industry.**

   Rationale:
   After internal discussions, research and analysis we have concluded that the equity dynamic is not a relevant factor to assess the creditworthiness of the company. An increase or reduction of the equity does not represent a risk per se. The positive or negative dynamic of equity will only depend on the amount of leverage a company needs to conduct its operations and cannot be linked to the credit risk of the company.

4) **We propose to erase the "Accounts receivables" subsection from section II. Financial Risk Analysis, in order to comply with best practices in the rating industry.**

   Rationale:
   We consider that the company's stance regarding accounts receivables is crucial when assessing the creditworthiness of a corporate, however we consider that the current section is not fully capturing the impact of these accounts on the entity. After internal discussions,

research and analysis we have concluded that for the purpose of the rating assessment it is more beneficial to include the analysis of accounts receivables into the liquidity metrics instead of having a separate section for the accounts receivables analysis.

5) **We propose to include the "Stress liquidity" subsection in section II. Financial Risk Analysis.**

Rationale:
The stress liquidity subsection is intended to assess the coverage level of the company's liabilities compared to its high quality assets. As opposed to the current Methodology, which considers only current and past liquidity metrics, this is a significant innovation as it incorporates into the analysis the risks associated with the potential liquidity sources and obligations of the company. A high level of stress liquidity indicates the coverage of all company's liabilities by its adjusted assets, and this has a positive influence on the rating level.

6) **We propose to include the "Diversification of liabilities by creditors" subsection in section II. Financial Risk Analysis.**

Rationale:
The purpose of this subsection is to determine the risks of the company related to the dependence on largest creditors, as this has a significant influence on the entity's creditworthiness. A high degree of diversification of the company's liabilities by the creditors increases the negotiating position of the rated entity on conditions, terms, interest rates of the borrowed funds and reduces the risks of financial instability of the company in case of prescheduled call from creditors, therefore positively affecting the rating level.

Please submit your comments to: info@raexpert.eu or compliance@raexpert.eu by the 1st of December 2017. Your response to this consultation will be published unless confidentiality is requested.