

Consensus Credit Ratings, CDS and CVAs

April 2023

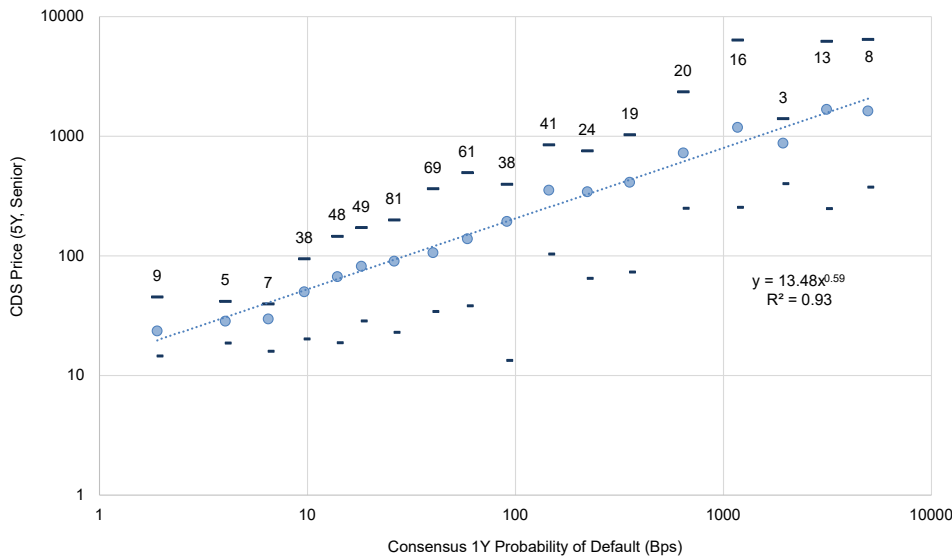
Consensus credit estimates combined with market CDS data can complement and extend existing CVA calibration.

Credit Value Adjustments (CVAs) aim to compensate for the risk of a swap counterpart defaulting before transaction maturity. CVAs are calibrated to risk-neutral Probability of Default (PD) estimates, and these are usually derived from Credit Default Swap (CDS) prices for various maturities.

However, CDS market coverage is narrowing, and individual CDS are often illiquid, volatile and subject to a range of distortions. For example, the March 2023 spike in Deutsche Bank CDS prices was mainly driven by one small trade.

Consensus credit risk estimates (used in bank risk capital calculations) are real-world one-year expected default frequencies, updated every two weeks.

The chart below shows how real-world and risk-neutral estimates are linked. The fitted line is a benchmark for the daily PD / “synthetic” CDS price relationship. As risk premiums shift, the fitted line will rotate clockwise (lower credit risk premium) or anti-clockwise (higher premium).



This plots February real world 1-year PDs (credit category mid-points) and late February 2023 5-year Senior CDS prices (log scales), for around 500 Corporates and Financials.

PDs and CDS prices are averaged by credit category.

Min and Max markers show the range of individual CDS prices in each category¹, with the issue count in grey.

Sources: Bloomberg, Credit Benchmark

With a fixed assumption for recovery rate, market implied PDs can be calculated for each point on this graph. The difference between market implied and real world PD is the risk premium in PD basis points for each credit category. Other maturities can be plotted if CDS price data is available.

From initial dataset covering issuer PDs and their associated traded CDS prices, it is possible for risk managers to estimate “Synthetic” CDS prices – and CVAs – for counterparts with no agency rating, no CDS and even no bonds.

Extension to term structures: the previous chart links the 1-year PD directly with the 5-year CDS price; this can be done for other maturities, but CDS pricing data may be sparse.

As an alternative, Term Structures can be generated from a Transition Matrix (TM). Transition Matrices derived from consensus data can be used to extrapolate one-year default risk estimates to a full term structure of longer maturities. Adding a credit risk premium (e.g. estimated using the data in the previous chart) converts this to a market implied term structure. Credit Benchmark can supply Transition matrices for 350+ issuer industries and geographies, as well as for bespoke portfolios.

Consensus credit data complements CDS data in a number of ways:

1. Consensus credit ratings can be used for counterparts with no corresponding traded CDS.
2. Large sample approaches shown here reduce the impact of single name CDS price volatility.
3. Bank estimates are unaffected by illiquidity and one-off trades.

¹ Individual CDS within each category show wide price variation, reflecting differences in assumed recovery rates and liquidity in the relevant reference bond.

Credit Consensus Ratings and Analytics

Real-world risk views with unparalleled consensus coverage.

Credit Benchmark provides Credit Consensus Ratings and Analytics based on contributed risk views from 40+ of the world's leading financial institutions, almost half of which are GSIBs, domiciled in the US, Continental Europe, Switzerland, UK, Japan, Canada, Australia and South Africa.

For regulatory and business reasons, these financial institutions have each created their own regulated internal credit rating agency to assess the creditworthiness of tens of thousands of obligors. Credit Benchmark collects, aggregates and anonymises this information to provide an independent, real-world perspective of risk, delivered twice monthly to our partners.

Credit Benchmark fills an information gap left open by traditional credit risk content providers by offering a timely, comprehensive view of credit risk which proves complementary to issuer-paid rating agencies and third party model vendors. The first of its kind "credit consensus" data reflects the expertise of more than 20,000 credit analysts across the contributing group – a powerful example of the wisdom of crowds.

Credit Consensus Ratings and Analytics are available on 75,000 corporate, financial, fund and sovereign entities globally, most of which are unrated by credit rating agencies.

Data that works for you

Credit Benchmark data is available via our Web App, Excel add-in, API, flat-file download, and third-party channels including Bloomberg and AWS.

Contact us to learn more and request a demo of Credit Benchmark data by [clicking here](#) or email info@creditbenchmark.com

Data Use Cases

- › Counterparty Risk Management
- › Credit Risk Management
- › Systematic Credit Trading
- › Securities Finance
- › Supply Chain Risk
- › Trade Credit Insurance
- › Capital Relief Trades (CRT / SRT)
- › Fund Financing
- › Regulation, RWA & Capital
- › Onboarding, KYC & Relationship Management
- › Point-in-Time (PIT) Impairments
- › Accounts Payable & Receivable
- › CCPs



75,000

Entities Covered



10 Million

Contributed Credit Risk Estimates Per Year
44 Million+ Estimates Collected Since Launch



2x

Twice Monthly Frequency



90%

Unrated by Major Credit Rating Agencies



1,200+

Credit Indices



160+

Countries



90+

Months of Data



40+

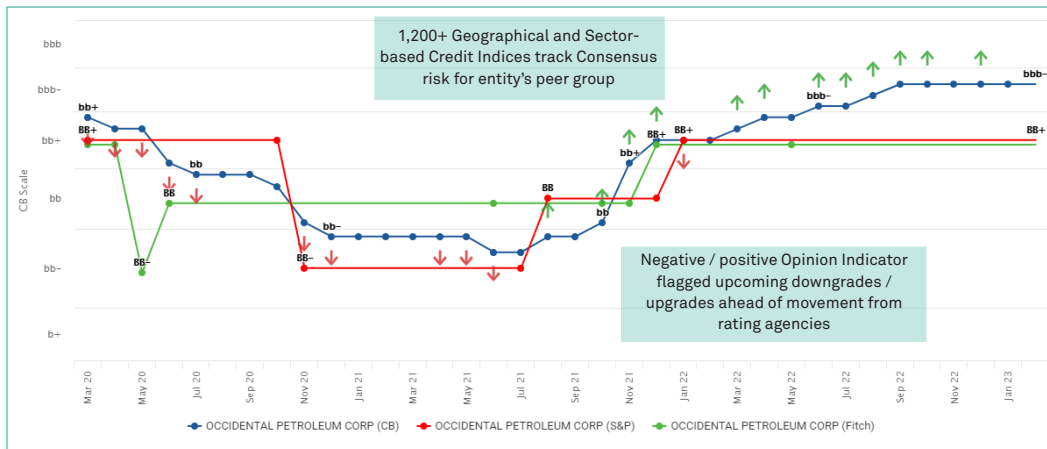
Contributing Banks, almost half of which are GSIBs



20,000+

Credit Analysts contributing expert risk views

Real-world risk views with unparalleled consensus coverage



Credit Consensus Rating: Unique measure of creditworthiness based on the views of 40+ leading global financial institutions

Consensus Analytics: Insights into the depth, dispersion, movement, and directionality of the Credit Consensus Rating's underlying views

Opinion Indicator: Month over month observation-level net downgrades or upgrades

Credit Benchmark Web App: Entity-Level Data Sample

Build screener with criteria below:

- S&P Rating is Unrated
- Fitch Rating is Unrated
- Type is Corporates

Combine qualitative and quantitative fields to screen for entities that meet your criteria

Quickly filter the database of 75,000 legal entities → 18,733 Entities found

Screen for public and non-publicly rated entities within specific geographies, industries, sectors and within your defined rating thresholds

CBID	Entity Name	Credit Consensus Rating	S&P Rating	Fitch Rating	Type
CB0000000025	GYP HOLDINGS III CORP	bb	Unrated	Unrated	Corporates
CB0000000026	CHART ASIA INVESTMENT CO LTD	bb-	Unrated	Unrated	Corporates
CB0000000088	TECK HIGHLAND VALLEY COPPER PARTNERSH	bbb-	Unrated	Unrated	Corporates
CB0000000184	XHR LP	bb	Unrated	Unrated	Corporates
CB0000000276	INEOS GRANGEMOUTH PLC	ccc+	Unrated	Unrated	Corporates
CB0000000396	ORTHO CLINICAL DIAGNOSTICS SARL	bb-	Unrated	Unrated	Corporates
CB0000000447	STS OPERATING INC	b	Unrated	Unrated	Corporates
CB0000000481	PEPSICO CANADA ULC	a	Unrated	Unrated	Corporates

Credit Benchmark Web App: Data Screen Sample

Data that works for you:

Credit Benchmark data is available via our Web App, Excel add-in, API, flat-file download, and third-party channels including Bloomberg and AWS.

Contact us to learn more and request a demo of our data.

Contact

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