FitchRatings

Criteria Essentials – Financial Market Infrastructure Company Ratings

Non-Bank Financial Institutions (NBFI)

Scan QR code or visit https://www.fitchratings.com/criteria/non-bank-financial-institutions to view **detailed NBFI Rating Criteria**

Sector Risk Assessment (SRA) **Upper boundary category** for financial market infrastructure companies: 'aa'

Jurisdiction implied Operating Environment score derived from GDP per capita and BMIs' Operational Risk Index

Lower of the two

Sector Risk Operating Environment (SROE)

7 Key Rating Drivers (KRDs)

- Implied KRD scores on a 'aaa' scale derived from core metrics, except for Management & Strategy and Risk Profile which are qualitative
- Benchmarks and attributes specific to business model
- KRD weights depend on balance-sheet (B/S) usage

KRDs	KRD weights: High B/S usage	KRD weights: Low B/S usage
1 **Business Profile** Exchange & CSD without a banking licence: Total net operating income Clearinghouse: Total collateral required	25%	25%
2 **Management & Strategy**	10%	10%
3 **Risk Profile**	10%	10%
4 **Counterparty Exposure**	10%	5%
5 **Earnings & Profitability**	10%	10%
6 **Capitalisation & Leverage**	15%	20%
7 **Funding, Liquidity & Coverage**	20%	20%

Implied Standalone Credit Profile derived from weighted KRD scores

- Complementary metrics and analytical judgment inform adjustments to implied KRDs and SCP

Standalone Credit Profile (SCP)

Standalone Credit Profile (SCP)

Shareholder Support Rating (SSR)
Government Support Rating (GSR)
Likelihood of receiving external support in case of need
Usually either SSR or GSR assigned

Higher of SCP, SSR or GSR

Capped by Country Ceiling*

Long-Term Issuer Default Rating (IDR)
Vulnerability to default on senior financial obligations to 3rd-party non-government creditors

Short-Term IDR
Assigned according to LT/ST Rating correspondence table
(see next page)

Obligations Ratings (see next page)
Senior secured debt
Derivative Counterparty Rating
Senior unsecured debt
Subordinated and hybrid debt

* The **Country Ceiling** indicates Fitch's view of the likelihood of transfer and convertibility restrictions being imposed to a country's domestic private sector.

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1 Where support is analytically relevant

Shareholder's Long-Term IDR
(or SCP/Viability Rating in some instances)

- Ability to support: regulation, relative size, country risks
- Propensity to support: subsidiary role and relevance, reputational risk, integration, support record, subsidiary performance and prospects, legal commitments

Assigned to subsidiaries ('core' to 'of limited importance')

Shareholder Support Rating (SSR)

Government Support Rating (GSR)

Government ability and propensity to support policy or systemically important NBFIs

Sovereign's Long-Term IDR

2 Where support is modest: Up to 3-notch uplift applied to SCP to derive IDR, provided source of support is stronger than the SCP

Financial KRDs and Benchmark Ranges

Counterparty Exposure	Attributes (assessment more qualitative than quantitative overall)	• Clearing member concentration • Guarantee fund coverage • Collateral coverage of margin and guarantee fund • Investment approach for surplus fund					
Earnings & Profitability	EBITDA/total gross operating income (a)	>50	>30	>20	>10	≤10 and >0	≤0
Capitalisation & Leverage	Gross debt/EBITDA (b)	<1	<2.5	<4	<6	<8	≥8 or <0
Funding, Liquidity & Coverage	EBITDA/interest expense (c)	>50	>30	>20	>10	>0	≤0
	Implied KRD score	**aa**	**a**	**bbb**	**bb**	**b**	**ccc & below**

(a): %, 4-year average; (b): latest; (c): 4-year average

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Senior Secured Long-Term Debt

1. **Baseline approach: +1** from the LT IDR
   (equalised with LT IDR if below average recovery prospects)

2. **If issuer rated BB+ to BB-: 0 to +3** from LT IDR, but capped at BBB- based on recovery prospects

3. **If issuer rated B+ or below: -3 to +3** from LT IDR based on recovery prospects and a Recovery Rating assigned as outlined below

Senior Unsecured Long-Term Debt and Derivative Counterparty Rating

1. **Baseline approach: Equalised** with LT IDR
   (-1 from LT IDR if below average recovery prospects)

2. **If issuer rated B+ or below: -3 to +3** from LT IDR based on recovery prospects and a Recovery Rating assigned as outlined below

Recovery Rating (RR)

Assigned to securities where the issuing entity's IDR is B+ or below based on bespoke recovery analysis

- Liquidation or going concern enterprise value determined and allocated based on priority of claims
- Country constraints to RR may apply (see Country-Specific Treatment of Recovery Criteria)
- Security's RR drives the applied notching from IDR to derive security's rating

Recovery Rating Scale and Securities Notching

Recovery Rating	Recovery Prospects Given Default	Typical Historical Recoveries (%)	Notching of Securities Rating from IDR
RR1	Outstanding (first-lien debt only)	91–100	+3
RR2	Superior	71–90	+2
RR3	Good	51–70	+1
RR4	Average	31–50	0
RR5	Below average	11–30	-1
RR6	Poor	0–10	-2/-3

Issue Rating: Measures the overall level of credit risk of the issue, including an assessment of the likelihood of default/non-performance and (long-term ratings only) of potential loss severity for creditors.

Derivative Counterparty Rating: Measures the NBFI's vulnerability to default on derivative contracts to 3rd-party non-government counterparties.

Senior Unsecured Short-Term Debt (Initial maturity <13 months)

Correspondence table between Long- and Short-Term Ratings

Long-Term Rating		AAA to AA-	A+	A	A-	BBB+	BBB	BBB-	BB+ to B-	CCC+ to C
ST Rating	Lower option	F1+	F1	F1	F2	F2	F3	F3	B	C
	Higher option		F1+	F1+	F1	F1	F2			
Min Funding, Liquidity & Coverage score to assign higher ST option			aa-	aa-	a	a	bbb+			

1. **If equivalent LT obligation rating notched up from LT IDR**
   Derived from equivalent LT obligation rating and applying the LT/ST Rating correspondence table
   Funding, Liquidity & Coverage score is the primary determinant to assigning the higher of the two ST rating options.

2. **Otherwise**
   Equalised with Short-Term IDR

Subordinated and Hybrid Debt

1. **Issuer subject to a prudential capital framework**
   Apply either Bank or Insurance Rating Criteria as relevant

2. **No prudential capital framework**
   - **For issuers rated BB- and above**: apply Corporate Hybrids Treatment and Notching Criteria
   - **For issuers rated B+ or below:** apply bespoke recovery approach and assign RR

Typical Subordinated and Hybrid Securities Notching*

	Corporate Hybrids Treatment and Notching Criteria		Bank Criteria		Insurance Criteria	
	Notching	Equity credit (%)	Notching	Equity credit (%)	Notching	Equity credit (%)
Subordinated (cumulative)	-1	0	-2	0	-1 or -2	0
Deeply Subordinated/AT1 (non-cumulative)	-2 or -3	100**	-4	100	-2 or-3	100**

*Typical notching relative to IDR (or Viability Rating for banks); **50% equity credit if coupon is cumulative