

Streamlining the Evaluation of Credit Risk

The Client: A mid-sized global accounting firm with presence in major financial hubs, including an office in Singapore.

Users: The auditing team in Singapore

Auditing companies are responsible for reviewing the financial statements of their clients to ensure that these records are correct. Many factors are taken into consideration, including the creditworthiness of an audit client's end customers for the purpose of provisioning. All this must be done in a timely fashion, so fully-audited financial statements can be made publicly available.

Pain Points:

This accounting firm has many auditing clients that are listed on the Singapore Exchange. These clients themselves have a large number of end customers that are small, thereby making it difficult to gain access to financial details to assess their ability to pay accounts receivables. The auditing team needed to put in place an efficient and credible system to evaluate this large universe of companies with limited information. With the new International Financial Reporting Standard (IFRS) 9 now in place, this also calls for calculating forward-looking probabilities of default (PDs) in order to determine a client's provisioning numbers for potential losses.

The Solution:

The auditing team was looking to work with a well-respected risk solutions provider that could offer an array of analytical tools in addition to data. They turned to S&P Global Market Intelligence ("Market Intelligence") to learn more about the company's capabilities.

Market Intelligence representatives recommended that the firm use a credit scoring module within the suite of Credit Analytics solutions. This provides a simplistic framework for calculating PDs using a model that is trained on S&P Global Ratings' default database¹. For audit clients with larger

¹S&P Global Ratings does not contribute to or participate in the creation of credit scores generated by S&P Global Market Intelligence. Lowercase nomenclature is used to differentiate S&P Global Market Intelligence PD credit scores from the credit ratings issued by S&P Global Ratings.

account receivables, financial information can be used to calculate individual PDs. For the remaining clients, the Expanded PD framework creates proxy PDs based on a combination of industry and geographic factors, which provide the needed context. Point-in-time adjustments then account for credit cycle and market considerations, creating the forward-looking estimates required to comply with IFRS 9.

Whitepapers and ongoing support helped the audit team understand the construction of the models and the applicability to their particular situation. This transparency and assistance was especially important because this was the first year that IFRS 9 provisioning was required, and the team needed to fully appreciate the process for implementation.

Key Benefits:

The Credit Analytics solution enabled the auditing team to quickly understand and apply the tools to meet their time-sensitive deadlines. The team also valued a number of other features:

1. **A well-tested methodology.** A rigorous development process and annual re-calibrations validate that the tools remain predictive of default risk.
2. **An approach that can be used with limited financial data.** The solution can be used when there is a lack of data available to construct statistical models that can be calibrated and validated.
3. **The ability to quickly evaluate a large number of companies.** An easy-to-use web-based capability helps automate the creation of credit scores and PDs.
4. **Point in Time Adjustments.** Help adjust PDs to forward looking estimates of defaults.
5. **Transparency.** Technical documentation and white papers explain the development process, use of data, and overall model performance.
6. **On-going support.** On-site training helped the auditing team become familiar with the capabilities, and on-going support helped address the team's needs.

The auditing team needed a well-tested solution to assess the PDs of a large number of end customers of their clients, and more so those with limited financial data.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.