

CASE STUDY

Understanding the Impact of Government Support on Credit Ratings

THE CLIENT:

A large commercial bank in Asia Pacific

USERS:

Risk management team

The Basel Committee on Banking Supervision (BCBS) is the primary organization for setting global banking standards.¹ The third set of regulations produced by BCBS, Basel III, aims to strengthen bank capital requirements by increasing liquidity and decreasing leverage. The BCBS announced modifications to Basel III that will take effect in 2022. A banking regulator in Asia Pacific planned to advance the implementation timeframe for these modifications to 2021 for systemically important banks within its country.

One of the clauses refers to the exclusion of government support within the credit ratings of counterparties. S&P Global Ratings conducts this type of analysis through its Stand-Alone Credit Profiles (SACPs). The SACP is an opinion of an issue's or issuer's creditworthiness in the absence of extraordinary intervention from its parent, or affiliate, or related government, and is one component of a credit rating. S&P Global Market Intelligence's ("Market Intelligence's") RatingsXpress® products provide access to S&P Global Ratings credit ratings and the underlying scores and factors, including the SACPs.

¹ "The Basel Committee - Overview." BIS, 2021, www.bis.org/bcbs/index.htm.



Pain Points

The risk management team needed to understand and measure the impact of government support on the final credit ratings for financial institutions' counterparties in the bank's loan and investment portfolios. This would help the bank set aside the appropriate provisions called for by Basel III. In particular, the team wanted to:

- Understand an issuer's creditworthiness before any government support.
- Take a deep look at a counterparty's business, financial, industry, and economic risk.
- Create meaningful financial benchmarks for its internal risk models to assess a counterparty's financial risk relative to its rated peer group.
- Rank counterparties with similar ratings by assessing their business risk profiles, industry risks, and competitive positions.

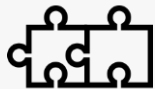
The risk management team needed to determine the level of support its counterparties were receiving from the government in order to exclude this in credit ratings, as required by Basel III regulations.

The international business divisions at the bank were users of RatingsDirect® on the Market Intelligence platform — the official source for S&P Global Ratings' credit ratings and research. These users suggested that the risk management team investigate other Market Intelligence offerings that could meet its needs.



The Solution

Market Intelligence discussed RatingsXpress: Scores & Factors. The solution would provide streamlined delivery of credit ratings, the insight needed to understand the various rating components, and the level of government support. This would enable the risk management team to:



Access historical credit ratings from a single source

RatingsXpress lets users tap into one of the industry's largest databases of credit ratings, with entity and security-level data in one schema. Ratings content from S&P Global Ratings provides a wide range of information, including Outlook, CreditWatch assessments, asset class-specific terms and conditions, regulatory identifiers, and more.



Understand the framework used by S&P Global Ratings

RatingsXpress: Scores & Factors lets users understand the framework behind the analysis of an issuer's credit rating. This includes the SACP, the underlying business, financial, industry, and economic risk factors, plus modifiers and support factors. This add-on to RatingsXpress provides data coverage for 3,854 corporations and 587 banks rated across the globe by S&P Global Ratings.²



Get efficient data delivery

Automatic data delivery through the bank's existing loader technology, helping to streamline data access.

²Data as of August 1, 2020.



Key Benefits

Members of the risk management team felt this solution would help them:

- **Get timely access to an extensive set of credit ratings and underlying scores and factors** to understand and measure the impact of government support on the final ratings of the bank's counterparties.
- **Gain the insight needed for more reliable provisioning** to help avoid setting aside too much or too little capital.
- **Better understand potential risks in the bank's loan and investment portfolios** with granular data on a counterparty's business, financial, industry, and economic risks.
- **Create meaningful financial benchmarks for internal risk models** to evaluate a counterparty's financial risk relative to its rated peer group.
- **Save time and streamline workflows** by leveraging an existing data delivery system in place at the bank for automatic feeds of the Market Intelligence information.

[Click here to explore the solution mentioned in this case study.](#)

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