

# Fitch: 'Recovery Given Default' Guidance for More Than 100 Countries

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----- Fitch Ratings-London-13 December 2005: As a further component of the introduction of explicit 'recovery given default' information into the agency's global corporate finance ratings, Fitch has just published a report titled "Country-Specific Treatment of Recovery Ratings". The report describes how the legal and political environment within a given country will affect the 'recovery given default' assessment embedded within Fitch's new corporate rating methodology. In contrast to many existing analyses of 'recovery given default' prospects by jurisdiction, Fitch's move to Issuer Default and Recovery Ratings is global. As a consequence, the jurisdictional analysis must provide a framework for each of the more than 100 countries in which Fitch already assigns ratings. To capture the impact of both the letter of the law and the practical enforceability of a creditor's claim, Fitch will limit the Recovery Ratings for certain jurisdictions using a system of 'soft caps'. These caps will limit the Recovery Ratings assigned to the obligations of issuers whose operating assets or value lies predominantly within the boundaries of a given country or group of countries. The criteria report lists 28 countries where no 'soft caps' will be assigned, and 10 countries whose issuers will be subject to an issue 'soft cap' at 'RR2'. A further 33 countries are listed whose issuers will be subject to an issue 'soft cap' at 'RR3' and another 82 countries whose issuers will see most of their debt, of whatever security ranking, subject to a soft cap at 'RR4'. In practical terms, bond ratings in the first group of countries will enjoy maximum possible notching (up to three notches) above the Issuer Default Rating to reflect recovery given default. Bond ratings in the last group of countries will generally enjoy no possible uplift above the Issuer Default Rating. The 'soft caps' will not apply to structured finance securities; to certain enhanced corporate obligations; or to the securities of sovereign obligors; and may be relaxed as an issuer actually approaches default. The resultant notching is generally consistent with current policies on bond ratings, and Fitch does not expect significant changes to individual bond ratings as a result of this announcement, though it does facilitate the assignment of secured debt ratings for a broader universe of issuers. As well as being global in the geographical sense, the move to more explicit recovery given default will affect all obligations from senior secured bank loans to preferred stock. The new methodology has already been rolled out to US industrial and utility issuers. Issuer Default Ratings for all remaining corporate, bank, insurance and sovereign issuers are anticipated to be assigned between now and the end of January 2006. Recovery Ratings will be published at the same time for the obligations of all issuers with an IDR of 'B+' or below, and, though initially unpublished, will also inform the assignment of individual issue ratings for issuers rated 'BB-' (BB minus) and above. The report has drawn extensively from third-party published research by Philip Wood, special global counsel, Allen & Overy LLP, on the letter of the law for a given country, and by the World Bank on the practical enforceability of the legal code. Full details of the components of the methodology are given in the above-named report, available from the dedicated "Recovery Ratings" section of the agency's website, [www.fitchratings.com](http://www.fitchratings.com). Contact: Richard Hunter, London, Tel: +44 20 7417 4362; Ian Linnell, +44 20 7417 4344. Media Relations: Alex Clelland, London, Tel: +44 20 7862 4084. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, [www.fitchratings.com](http://www.fitchratings.com). Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.