

JCR considers modifying "Types of Credit Ratings and Definitions of Rating Symbols"

Japan Credit Rating Agency, Ltd. (JCR) is considering modifying the descriptions of "Types of Credit Ratings and Definitions of Rating Symbols" and discloses the proposal under consideration. After finalizing, JCR will publicize the final version and the expected effective date. JCR expects that it will take one to two months to finalize and enact the modification. These modifications have no impact on any individual credit ratings directly.

Material changes under consideration are described below:

1. Modifying the definition of "D" and adding "LD (Limited Default)"

Under the current definition, JCR does not assign "D" rating to the long-term senior debts which is under "a condition where creditors who accepted debt forgiveness, debt equity swap, etc. for the purpose of relief of an obligor cannot receive interest and principal payments as agreed initially," while it acknowledges that it is considered to be an event of default. However, JCR acknowledges that it shall address the needs for describing more details of debtors' creditworthiness, considering the fact that obligors' responses, under the circumstances that their abilities to pay their debts are damaged, have diversified. For this reason, JCR is considering modifications of the definition of "D" as follows: "JCR judges that all of the financial obligations are in default in effect." Together with the aforementioned modification, JCR will add a new rating symbol, "LD," which indicates "JCR judges that while an obligor does not honor part of its financial obligations as agreed, it honors its all other financial obligations as agreed."

2. Segmentation of Types of Credit Ratings

JCR classifies its credit ratings into "Long-Term Rating" and "Short-Term Rating" and defines rating symbols by each category. In addition to it, JCR is adding sub category of "Issuer Rating" and "Issue Rating" in each category.

3. Renaming of "Long-term Senior Debts Rating" and "Short-term Senior Debts Rating"

JCR is considering renaming "Long-term Senior Debts Rating" and "Short-term Senior Debts Rating" to "Long-term Issuer Rating" and "Short-term Issuer Rating" respectively for the purpose of clarifying the meaning of each rating assigned.

Even if the renaming is put into effect, the meanings of these two types of ratings are the same as those before the renaming. JCR will not change the name of ratings which has been already publicized but will apply renewed names to ratings that will be assigned after the renaming being effective.

For the details, please refer to "JCR's Rating Definitions (currently in force)" and "Types of Credit Ratings and Definitions of Rating Symbols (Proposed)" described below.

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JCR'S Rating Definitions

1. Rating Symbols and Definitions

(i) Long-Term Rating

AAA	The highest level of capacity of the obligor to honor its financial commitment on the obligation.
AA	A very high level of capacity to honor the financial commitment on the obligation.
A	A high level of capacity to honor the financial commitment on the obligation.
BBB	An adequate level of capacity to honor the financial commitment on the obligation. However, this capacity is more likely to diminish in the future than in the cases of the higher rating categories.
BB	Although the level of capacity to honor the financial commitment on the obligation is not considered problematic at present, this capacity may not persist in the future.
B	A low level of capacity to honor the financial commitment on the obligation, having cause for concern.
CCC	There are factors of uncertainty that the financial commitment on the obligation will be honored, and a possibility of default.
CC	A high default risk.
C	A very high default risk.
D	In default.

A plus (+) or minus (-) sign may be added to the rating symbols from 'AA' to 'B', to indicate relative standing within each of those rating categories.

- a. JCR's long-term ratings are gradings that enable comparisons to be made of obligors' capacity to honor the financial commitments on obligations of more than one year as contracted.
- b. The subjects of JCR's long-term ratings include issuers' specific obligations such as bonds and financial programs (e.g. medium-term note programs). They also include obligors' capacity to honor the financial obligations such as "long-term senior debts" and "ability to pay insurance claims."

- c. The aforementioned symbols are also used for ratings of long-term securitized products including asset backed securities.

(ii) Short-Term Rating

J-1	The highest level of capacity of the obligor to honor its short-term financial commitment on the obligation. Within this rating category, obligations for which the capacity is particularly high are indicated by the symbol 'J-1+.'
J-2	The high level of capacity to honor the short-term financial commitment on the obligation, but slightly less than for category J-1.
J-3	An adequate level of capacity of the obligor to honor the short-term financial commitment on the obligation, but susceptible to adverse changes in circumstances.
NJ	The capacity of the obligor to honor the short-term financial commitment on the obligation is less than for the upper-ranking categories.
D	In default.

- a. JCR's short-term ratings are gradings that enable comparisons to be made of obligors' capacity to honor the financial commitments on obligations of no more than one year as contracted.
- b. The subjects of JCR's short-term ratings include issuers' specific obligations such as commercial-paper programs (including both certificated CP and electronic CP), and obligors' capacity to honor short-term financial obligations such as "short-term senior debts."
- c. The aforementioned symbols are also used for ratings of short-term securitized products including asset backed securities.

(iii) Long-term Senior Debts Rating and Short-term Senior Debts Rating

The rating on the long-term senior debts is an assessment of an obligor (issuer)'s financial capacity to pay its overall financial obligations. It would differ from the rating on any specific financial obligation, which takes into account the nature and provisions of the obligation and its senior/subordinate status, as well as its standing in bankruptcy or liquidation. (The short-term senior debts rating is an assessment of an obligor's financial capacity to pay its overall financial obligations due within one year.)

(iv) Servicer Rating

S1	A very high level of capability to carry out servicing
S2	A high level of capability to carry out servicing.
S3	An adequate level of capability to carry out servicing.
S4	Although the capability of servicing is adequate, there are some points in servicing capability that should be improved.
S5	The capability of servicing is inadequate and should be improved.

A plus (+) or minus (-) sign may be added to the rating symbols from 'S2' to 'S4', to indicate relative standing within each of those rating categories.

(v) Fund Credit Rating

F-AAA	Credibility of funds rated as F-AAA based on analyses on objects of investment, investment management rules, attributes of funds and the other relevant information on investment management companies is equivalent to AAA-rated bonds.
F-AA	Credibility of funds rated as F-AA based on analyses on objects of investment, investment management rules, attributes of funds and the other relevant information on investment management companies is equivalent to AA-rated bonds.
F-A	Credibility of funds rated as F-A based on analyses on objects of investment, investment management rules, attributes of funds and the other relevant information on investment management companies is equivalent to A-rated bonds.
F-BBB	Credibility of funds rated as F-BBB based on analyses on objects of investment, investment management rules, attributes of funds and the other relevant information on investment management companies is equivalent to BBB-rated bonds.
F-N	Credibility of funds rated as F-N is unable to be included in any of the above four rating categories.

A plus (+) or minus (-) sign may be added to the rating symbols from F-AA to F-BBB, to indicate relative standing within each of those rating categories.

(vi) Fund Credit Rating (Short-Term)

F-J1	Credibility of funds rated as F-J1 based on analyses on objects of investment, investment management rules, attributes of funds and the other relevant information on investment management companies is equivalent to J-1-rated short-term obligations.
F-J2	Credibility of funds rated as F-J2 based on analyses on objects of investment, investment management rules, attributes of funds and the other relevant information on investment management companies is equivalent to J-2-rated short-term obligations.
F-J3	Credibility of funds rated as F-J3 based on analyses on objects of investment, investment management rules, attributes of funds and the other relevant information on investment management companies is equivalent to J-3-rated short-term obligations.
F-NJ	Credibility of funds rated as F-NJ based on analyses on objects of investment, investment management rules, attributes of funds and the other relevant information on investment management companies is equivalent to NJ -rated short-term obligations

Within F-J1 rating category, obligations for which the capacity is particularly high are indicated by the symbol 'F-J1+.'

2. 'p' Rating

A 'p' rating is based on an analysis of information including publicly available data and is given to entities that have not requested a rating, but that have given the consent. A 'p' rating is shown with a 'p' suffix. All 'p' ratings presume the participation of entities in the rating process.

3. Rating Outlook

Rating outlook is JCR's opinion regarding the likely direction of a rating over the medium term. Rating outlooks fall into the following five categories: Positive, Negative, Stable, Developing, and Multiple. Positive means that a rating may be raised, while Negative means that a rating may be lowered. Stable means that a rating is not likely to change. In the few instances, Developing or Multiple outlook is assigned. Developing means a rating may be

raised or lowered, contingent upon an event. Multiple means that an issuer has multiple outlooks for its individual ratings, in which case JCR will describe any differences and provide the rationale for these differences in its news release.

4. Credit Monitor

When such an event occurs as an outbreak of war; a serious accident, lawsuit, or administrative action; a substantial change in business performance; or a proposed merger that may necessitate a rating change, JCR will initiate, at any time, a reviewing procedure for the rating and will announce publicly that the rating is placed under Credit Monitor. A rating under Credit Monitor is shown with '#' placed before the rating symbol. JCR designates direction to Credit Monitor placed on ratings. The direction (Positive, Negative, or Developing) shows JCR's opinion regarding the likely direction of a rating placed under Credit Monitor.

5. Suspension and Withdrawal

JCR may suspend or withdraw a rating when relevant information is lacking or if unfavorable circumstances develop. In the event that it becomes difficult or impossible to obtain information necessary for reviewing a rating, the existing rating will be suspended. In the event that JCR deems that, as a result of lack of cooperation with regard to the provision of information, it will be impossible to conduct rating reviews, the existing rating will be withdrawn.

Types of Credit Ratings and Definitions of Rating Symbols (Proposed)

1. Credit Rating Categories and Their Details

Credit Rating Categories	
Corporations, etc.	<p>Creditworthiness of corporations or other similar entities as given below, and the creditworthiness of financial instruments such as securities (excluding asset securitization products and other structured financial instruments) that are issued by the relevant corporations or other similar entities:</p> <ul style="list-style-type: none"> (i) (Industrial) Corporations, etc. (ii) Financial Institutions, etc. (including insurance companies) (iii) Public Sector Entities (iv) Medical Institutions, I Educational Institutions, etc. (v) Sovereign and Overseas Public Sector Entities, etc.
Structured Finance Products, etc.	<p>Creditworthiness of those as given below;</p> <ul style="list-style-type: none"> (i) Asset Securitization Products (ii) Other Structured Finance Products as given below: <ul style="list-style-type: none"> • Securities issued by investment companies or the relevant companies, or loans to the relevant companies • ABCP program (limited to the types with the bank's full support) • Repackaged products (limited to single credit financial products with the credit situation of their underlying assets being deemed effectively the same as the credit situation of the relevant financial products) • Securities issued by companies associated with project finance or the relevant companies, or loans to the relevant companies • Securities issued by companies associated with shipping finance or the relevant companies, or loans to the relevant companies • Other products similar to the above

2. Types of Credit Ratings and Definitions of Rating Symbols for Corporations, etc.

(1) Definition of Default

"Default" means a state where principal and/or interest payments of financial obligations cannot be made as agreed initially. This includes a state where JCR judges that it is impossible that principal and interest payments of the financial obligations can be made as agreed owing to filing of a petition for legal proceedings such as Bankruptcy, Corporate Reorganization, Civil Rehabilitation, or Special Liquidation proceedings, etc.

(2) Long-term Issuer Rating Scale

AAA	The highest level of certainty of an obligor to honor its financial obligations.
AA	A very high level of certainty to honor the financial obligations.
A	A high level of certainty to honor the financial obligations.
BBB	An adequate level of certainty to honor the financial obligations. However, this certainty is more likely to decline in the future than in the cases of the higher rating categories.
BB	Although a level of certainty to honor the financial obligations is not considered problematic at present, this certainty may not persist in the future.
B	A low level of certainty to honor the financial obligations, having cause for concern.
CCC	There are factors of uncertainty that the financial obligations will be honored, and a possibility of default.
CC	A high default risk.
C	A very high default risk.
LD	JCR judges that while an obligor does not honor part of its financial obligations as agreed, it honors its all other financial obligations as agreed.
D	JCR judges that all of the financial obligations are in default in effect.

A plus (+) or minus (-) sign may be affixed to the rating symbols from 'AA' to 'B,' to indicate relative standing within each of those rating scales.

- (a) A Long-term Issuer Rating Scale enables a comparison of an obligor (issuer)'s overall capacity to honor its entire financial obligations with others' such overall capacity.
- (b) The same Definitions of Rating Symbols and Scales shall be applied to Ability to Pay Insurance Claims Rating.

(3) Long-term Issue Rating Scale

AAA	The highest level of certainty of an obligor to honor its financial obligations.
AA	A very high level of certainty to honor the financial obligations.
A	A high level of certainty to honor the financial obligations.
BBB	An adequate level of certainty to honor the financial obligations. However, this certainty is more likely to diminish in the future than in the cases of the higher rating categories.
BB	Although a level of certainty to honor the financial obligations is not considered problematic at present, this certainty may not persist in the future.
B	A low level of certainty to honor the financial obligations, having cause for concern.
CCC	There are factors of uncertainty that the financial obligations will be honored, and a possibility of default.
CC	A high default risk.
C	A very high default risk.
D	JCR judges that the obligation is in default.

A plus (+) or minus (-) sign may be affixed to the rating symbols from 'AA' to 'B,' to indicate relative standing within each of those rating scales.

- (a) A Long-term Issue Rating Scale enables a comparison of certainties that the obligations of more than a year will be honored.
- (b) In the light of attempting to call attention of investors to this matter, JCR may make notch differences between a Long-term Issue Rating and a Long-term Issuer Rating, when it considers that there is a difference in terms of probability of recovery between the Long-term Issue Rating and the Long-term Issuer Rating as a result of assessing the degree of certainty that the obligation will be honored as agreed.
- (c) A Long-term Issue Rating includes an issuer's specific obligations owed by it such as bonds, issue program (e.g., medium-term note program), etc.
- (d) The same Definitions of Rating Symbols and Scales shall be applied to rating for hybrid securities such as preferred stock.

(4) Short-term Issuer Rating Scale

J-1	The highest level of certainty of an obligor to honor its short-term financial obligations. Within this rating category, obligations for which the certainty is particularly high are indicated by the symbol 'J-1+.'
J-2	A high level of certainty to honor the short-term financial obligations, but slightly less than the category J-1.
J-3	An adequate level of certainty of an obligor to honor its short-term financial obligations, but susceptible to adverse changes in circumstances.
NJ	A certainty of an obligor to honor its short-term financial obligations is less than the upper ranking categories.
LD	JCR judges that while an obligor does not honor part of its financial obligations as agreed, it honors its all other financial obligations as agreed.
D	JCR judges that all of the financial obligations are in default in effect.

- (a) An Issuer Rating Scale enables a comparison of an obligor (issuer)'s overall capacity to honor its entire financial obligations with others' such overall capacity. A Short-term Issuer Rating reflects an issuer's overall capacity to honor its entire financial obligations within a year.

(5) Short-term Issue Rating Scale

J-1	The highest level of certainty of an obligor to honor its short-term financial obligations. Within this rating category, obligations for which the certainty is particularly high are indicated by the symbol 'J-1+.'
J-2	A high level of certainty to honor the short-term financial obligations, but slightly less than the category J-1.
J-3	An adequate level of certainty of an obligor to honor its short-term financial obligations, but susceptible to adverse changes in circumstances.
NJ	A certainty of an obligor to honor its short-term financial obligations is less than the upper-ranking categories.
D	JCR judges that the obligation is in default.

(a) A Short-term Issue Rating Scale enables a comparison of degrees of certainty that the obligations of within a year will be honored.

(b) A Short-term Issue Rating includes an issuer's specific obligations owed by it such as commercial paper program (including electronic commercial paper), etc.

3. Types of Credit Ratings and Definitions of Rating Symbols for Structured Finance Products, etc.

All the aforementioned Types of Credit Ratings and Definitions of Rating Symbols shall be applied to ratings for Structured Finance Products, etc. For ratings on Investment Corporations, etc., both Issuer Rating and Issue Rating shall be applied.

4. 'p' Rating (Unsolicited Rating)

A 'p' rating is a credit rating based on an analysis of information including publicly available data and is given to an obligor (issuer) who has not requested a solicited rating, but has given the consent. A 'p' rating is shown with a letter 'p' following a rating symbol. In case of 'p' ratings, there are cases where JCR cannot have an interview with a rating stakeholder or JCR cannot get non-public information. When JCR judges that JCR cannot ensure sufficient quality of information used in assignment of a credit rating, JCR does not assign a 'p' rating. For a credit rating for a sovereign, JCR does not place a letter 'p' following a rating symbol even when JCR assigns and announces publicly the rating without a request.

5. Rating Outlook

A Rating Outlook is JCR's opinion regarding likely direction of an issuer rating or an ability to pay insurance claims rating over the medium term. A Rating Outlook falls into the following five categories: Positive, Stable, Negative, Developing, or Multiple. Positive means that a rating may be raised, while Negative means that a rating may be lowered. Stable means that a rating is not likely to change in the foreseeable future. In a few instances, Developing or Multiple Outlook is assigned. Developing means that a rating may be raised or lowered. Multiple means that an issuer has multiple outlooks for its ratings when it is highly likely that a rating on individual bonds, loans and an issuer rating, etc. will be revised with different directions of rating.

6. Credit Monitor

When such an event occurs as an outbreak of war, a serious accident, a proposed merger, a lawsuit, an administrative action, or a substantial change in business performance that may necessitate a credit rating change, JCR will initiate, at any time, a reviewing procedure for the rating and will announce publicly that the rating is placed under Credit Monitor. A credit rating under Credit Monitor is identified by '#' affixed before the rating symbol till its removal. JCR designates directions to Credit Monitor placed on all credit ratings. A direction shows JCR's opinion regarding likely direction of a rating placed under Credit Monitor. A direction falls into the following three categories: Positive, Negative, or Developing. Positive means that a rating may be raised, while Negative means that a rating may be lowered. Developing means that a rating may be raised or lowered.

7. Suspension and Withdrawal

JCR may suspend or withdraw a credit rating when obtaining information becomes difficult or a significant change occurs to the objective circumstances. In the event that it becomes difficult or impossible temporarily to obtain information necessary for reviewing a credit rating, the existing rating will be suspended. In the event that JCR deems that, as a result of being unable to obtain cooperation with regard to provision of information from an obligor (issuer), it will be impossible to conduct credit rating reviews in the future, the existing rating will be withdrawn.