LE Paper 10 Credit Rating Services

Syllabus (Effective from 4 September 2025)

Topic 1: Overview of credit as a financial discipline

1   What is credit?
- From a legal perspective
- From an economic perspective
- From a social perspective

2   Credit (debt) as a financial investment
- Fundamental difference from equity
- Different types of basic credit products

3   Credit risk and financial risk analysis
- Credit risk and market risk: similarities and differences
- Credit quality and risk tolerance
- Credit quality with financial statements
- Debt capital markets

Topic 2: The credit rating industry

1   Credit rating as a relative measure of credit risk
- Credit ratings as a measure of risk of default
- Credit ratings as default risk grading
- Limitations in use of credit ratings

2   How credit ratings respond to the market environment
- The evolution of key rating distinctions
- Key developments that drive rating processes and products

3   Who makes credit ratings?
- Credit rating agencies as the neutral provider of credit opinion
- Regulations pertaining to credit rating agencies
- The Big Three and their rating scales
- Other types of credit rating agencies and credit analytics providers
- The credit rating agency industry today

Topic 3: The credit rating process

1 Elements of the credit rating process
   - How is a rating done?

2 Quality control issues
   - Independent role of the credit rating agencies
   - Internal sources of quality control
   - External sources of quality control
   - Principles of integrity, transparency, responsibility, good governance in action

3 Institutionalising surveillance, backtesting, reporting and record-keeping
   - Duties of the rating agency as an independent provider of credit quality
   - Surveillance, backtesting, reporting and record-keeping: internal quality controls
   - External regulation of credit rating agency
   - Ongoing surveillance and modification of ratings

4 Making and changing rating methodologies or criteria

5 Addressing the needs of users of credit ratings
   - Who are users of credit ratings?
   - Fostering awareness of credit ratings and their uses
   - Explaining the basis of a rating
   - Channels of communication
   - Speaking to different constituencies
   - Inappropriate communications
   - Handling complaints
   - Communicating limitations of ratings

Topic 4: Corporate credit ratings

1 Analysing corporation credit quality
   - Balance sheet and financial strength
   - Cash flow position
   - Profitability measures
   - Management capacity and other intangibles

- Industry or sector factors
- Covenants
- Extensions of the corporate paradigm

2   Measures of corporate credit strength
- Key ratios associated corporate rating factors
- Industry-specific benchmarks
- Case illustrations
- Major adjustments to financial statements

3   Benchmarking credit quality against aggregate measures
- Benchmarking on group basis
- Market data for inferring credit risk
- Country ceiling

4   Rating corporations in emerging economies
- Corporate credit rating: issues on China enterprises

Topic 5: Bank and non-bank financial institution credit ratings

1   Bank ratings
- Overview of bank rating scale, definitions and criteria
- Bank standalone assessment
- Parent and government support
- Support and structural analysis
- Country risk
- Country ceiling for bank ratings
- Bank failure factors

2   Non-bank financial institution ratings
- Overview of NBFI rating scale, definitions and criteria
- Insurance companies
- Securities market makers and securities service providers
- Asset managers
- Fund ratings

Topic 6: Public sector enterprise credit ratings

1   Public sector enterprises and their debt instruments
    - Definitions of public sector enterprises
    - Examples of public sector enterprise debt instruments
2   General risk factors in rating PSE debt instruments
    - Source of revenue and business profile
    - Governance and management
    - Government support
    - Financial strength of governments
3   Ratings criteria of selected PSE debt instruments
4   Default history of public sector enterprises
    - SOE and LGFV defaults in Mainland China
    - Default cases of US public sector enterprises

Topic 7: Structured finance credit ratings

1   Key developments associated with the rise of structured finance
2   Defining structured finance and securitisation
3   Types of transaction structures
4   Rating structured securities
    - How the process of rating structured securities differs from that of corporate bonds
    - Methodological differences between agencies
    - Methodological differences for different structural types
5   Benchmarking credit quality: structured securities
    - Rating performance
    - Risks to structured transactions performance

Topic 8: Sovereign credit ratings

1   Defining sovereign ratings
    - Differences between sovereign risk and country risk
    - Local-currency bond ratings versus foreign-currency bond ratings
    - Importance of sovereign ratings

- Municipal ratings

2 Basis of sovereign credit ratings
- General rating criteria of credit rating agencies
- Determinants on sovereign default

3 Methodological differences between the NRSROs
- Balance sheet versus income-based approaches
- Sovereign solvency and access to foreign exchange
- The payment system
- Local-currency scale ratings for emerging economies
- Relationship of sovereign ratings and macroeconomic factors
- Rating differences among credit rating agencies

4 Do sovereign ratings work? Evidence from the rating agencies
- Issue on credit rating agencies validating sovereign ratings
- Credit rating agencies' ability to predict crises
- Sovereign ratings as forward-looking indicators

Expected Learning Outcomes ("ELOs")

Topic 1: Overview of credit as a financial discipline

The candidates should demonstrate a good understanding of the basic concept of credit including its definition and the products or risks associated with it.

The candidates are expected to:

(a) describe the concept of credit and its role in financial systems, including its legal, economic, and social dimensions;

(b) describe the relationship between credit and debt in financial systems, the key types of credit products and their relevance to credit ratings, and differentiate debt from equity as a form of financial investment;

(c) define default and its relationship with credit risk, differentiate between credit risk and market risk, describe the sequential stages of credit deterioration and the function of the transition matrix;

(d) assess credit quality using financial statements by analysing leverage, profitability and cash flow, and explain how variations in capital structures affect a firm's financial stability;

(e) explain how credit ratings and market factors influence bond pricing and yield-spread curves in debt capital markets by analysing fixed-income valuation, interest rate fluctuations, and the impact of risk premiums.

Topic 2: The credit rating industry

The candidates should demonstrate a good understanding of the credit rating industry including its role and development, as well as the products and methodologies of CRAs.

The candidates are expected to:

(a) describe the role of credit ratings as relative measures of credit risk, and their limitations;

(b) describe the role of CRAs in capital markets, focusing on how their rating processes, products, and regulatory integration are influenced by market changes, and the importance of their analytical independence;

(c) differentiate between key types of credit ratings, such as ordinal and cardinal, issuer and issue, etc, and explain their respective applications and implications in credit risk analysis;

(d)   differentiate and assess the rating methodologies, terminology, default definitions and validation practices used by major CRAs for different instruments and issuer types;

(e)   describe the roles and characteristics of alternative credit analytics providers;

(f)   describe the challenges faced by CRAs.

Topic 3: The credit rating process

The candidates should demonstrate a good understanding of the credit rating process and quality control measures.

The candidates are expected to:

(a)   describe how CRAs typically structure their governance and organisational functions, including the separation of commercial and analytical activities, and differentiate between the segmentation of analytical functions;

(b)   describe the key stages of the credit rating process typically employed by CRAs, including the primary tasks performed at each stage and the corresponding objectives;

(c)   describe the principles underpinning the independent role of CRAs and the importance of timeliness in rating activities;

(d)   identify and determine the sources of quality control that uphold the integrity and reliability of CRAs, and explain how principles of integrity and good governance are applied in credit rating processes;

(e)   assess tools and approaches used to ensure rating quality, including backtesting, ongoing surveillance, statements for rating limitations, etc, and differentiate between through-the-cycle and point-in-time rating approaches with regard to rating effectiveness;

(f)   describe the motivation and requirements for changing rating methodologies and criteria;

(g)   describe how CRAs communicate with various stakeholders and users to foster understanding of credit ratings and promote trust and accountability in the credit rating process.

Topic 4: Corporate credit ratings

The candidates should demonstrate a good understanding of corporate credit ratings, including rating assessment, factors and methodologies.

The candidates are expected to:

(a)   assess the factors that influence corporate credit quality by examining country, sector, and company-specific risks, and explain financial statements using key analytical ratios;

(b)   describe the purpose of bond covenants and how different types of covenants affect credit quality and provide protection for investors in the context of issue ratings;

(c)   describe the key features of non-recourse project finance and how they influence credit assessment and risk premiums compared to corporate credit analysis;

(d)   assess the rating methodologies and considerations used by CRAs, including judgemental and model-based approaches, the use of market data, and the application of financial ratios, industry benchmarking and country or regional ceilings;

(e)   describe the unique risk factors and challenges associated with rating corporate issuers in emerging markets.

Topic 5: Bank and non-bank financial institution credit ratings

The candidates should demonstrate a good understanding of key elements involved in credit ratings for banks and NBFIs, including rating products, methodologies and factors.

The candidates are expected to:

(a)   assess the factors that influence the credit quality of banks and NBFIs;

(b)   assess the typical rating methodologies and considerations used by CRAs in assigning credit ratings to banks and NBFIs, and differentiate between various types of rating products applicable to each;

(c)   differentiate between the types of banks, including commercial banks, bank holding companies, government and policy banks, and multilateral development banks, as well as assess the specific rating factors and considerations applied to each;

(d)   differentiate between the types of NBFIs, including insurance companies, securities firms, and asset managers, as well as assess the specific rating factors and considerations applied to each.

Topic 6: Public sector enterprise credit ratings

The candidates should demonstrate a good understanding of key elements involved in credit ratings for PSEs, including rating products, methodologies and general risk factors.

The candidates are expected to:

(a) describe the key characteristics of PSEs and how their definitions vary across different contexts and jurisdictions;

(b) differentiate between bonds issued by local governments, state-owned enterprises ("SOEs"), and local government financing vehicles ("LGFVs") in Mainland China;

(c) assess the factors that influence the credit quality of PSE and creditworthiness of PSE debt instruments, including their financial and business profiles, governance and management effectiveness, government support, and the financial strength of supporting governments;

(d) assess the rating methodologies and considerations used by CRAs in assigning credit ratings to PSEs.

Topic 7: Structured finance credit ratings

The candidates should demonstrate a good understanding of the key elements involved in credit ratings for structured finance, including major types of transaction structures, rating factors, methodologies and key risks.

The candidates are expected to:

(a) describe the key concepts and terminologies underlying structured finance and securitisation, and differentiate between the major types of structured finance instruments;

(b) assess the basic permutations of structured finance transactions and the factors that influence the credit quality of structured finance products associated with them;

(c) assess the rating methodologies and approaches used by credit rating agencies ("CRAs") in assigning credit ratings to different types of structured finance instruments;

(d) describe the key risks that impact the accuracy of credit ratings for structured securities and the importance of balancing overestimation and underestimation of credit quality.

Topic 8: Sovereign credit ratings

The candidates should demonstrate a good understanding of key elements involved in sovereign credit ratings, including its different rating types, general rating factors, methodologies, as well as its challenges and limitations.

The candidates are expected to:

(a)   describe the basic concept of sovereign ratings and its importance to investors, and differentiate ratings associated with them, including country risk ratings, local- and foreign-currency bond ratings, sub-sovereign ratings, etc.;

(b)   describe how CRAs assess sovereign default risk in emerging economies;

(c)   assess the factors that influence sovereign credit ratings by evaluating key variables that contribute to a government's likelihood of default;

(d)   assess the sovereign rating methodologies and considerations used by different CRAs;

(e)   describe the challenges and limitations faced by CRAs in sovereign rating assignments, and the importance of incorporating forward-looking data and dynamic economic conditions into their methodologies.

Question Allocation

Each examination paper is based on a predefined allocation of questions for each competency. These competencies and their allocations are determined with guidance from subject matter experts.

While question allocation may vary slightly between examinations to maintain a consistent level of difficulty, the number of questions per competency should not change by more than two.

Competencies ("CC")	Area	Topics	Number of Questions
CC1: Understanding of the credit rating industry and market practice	Industry Overview	2	4
	Rating Process and Products	2 and 3	
CC2: Understanding of governance, oversight and quality control for credit ratings	Governance and oversight	3	6
	Quality control	3	
CC3: Application of the basic concepts, general rating factors and approach of the credit ratings	Basic concepts and relevant theoretical knowledge	1 and 2	8
	General rating factors, approach and considerations	1, 2 and 4	
CC4: Application of the key concepts, rating factors and methodologies of the major types of credit ratings	Corporate ratings	4	22
	Banks and NBFI ratings	5	
	Public service enterprises ratings	6	
	Structured financial instrument ratings	7	
	Sovereign ratings	8	