

The Licensing Examination for Securities and Futures Intermediaries

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
 - ~~Implicitness of credit in all financial transactions~~
- 3 ~~Financial asset risk: a function of certainty~~ 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 ~~non-payment~~ 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
 - ~~Inside the CRA: internal organisation of duties and workflow~~
 - ~~Source material used in the rating analysis~~
 - 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 agencies
 - Ongoing surveillance & modification of rating
- 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
 - Factors on bank failures
- 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
 - ~~Financial profile and revenue stability~~ Source of revenue and business profile
 - ~~Management quality and operating risk~~ Governance and management
 - Government supports
 - 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

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

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

- 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

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
 - ◆ ~~Country 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