Market Signals Definitions

SENIOR UNSECURED OR EQUIVALENT RATING
As determined by the Senior Ratings Algorithm (SRA), a two-step process for a given issuer in which (1) a reference rating is selected and (2) the transformation of the reference rating into the issuer’s unsecured or equivalent rating, achieved through the process of notching.

BOND-IMPLIED RATING
Issuer-level bond-implied ratings are calculated by averaging each entity’s issue-level implied rating. Larger issues are given greater weight in the calculation, reflecting their better pricing characteristics. We underweight long- and short-duration issues due to the lower information content of the prices of such issues. Moody’s Analytics builds credit term structures for each rating category. Median credit spreads are updated daily.

CDS-IMPLIED RATING
Based solely on the 5-year CDS. While CDS denominated in different currencies trade in line with each other, our policy is to use spreads of US dollar-denominated contracts, unless these are not available. In that case, we take spreads on contracts denominated in other currencies. Median credit spreads are updated daily.

EQUITY-IMPLIED RATING
Uses Moody’s public EDF measure as the equity-based signal to produce an implied rating. The mapping from EDF measures to implied ratings is determined by median EDF measures of firms in ratings classes using Moody’s KMV’s "spot median" methodology. The spot median for a major rating class captures the median of the most recent month’s EDF values for all North American non-financial firms that fall into this rating class.

EDFTM (EXPECTED DEFAULT FREQUENCY)
Probability of default credit measure for an entity over a 1-year time period. Calculated on three factors: the market value of its assets, its volatility and its current capital structure. The EDF credit measure captures the credit insight of the equity market, combining it with a detailed picture of each company’s capital structure.

FAIR VALUE SPREAD
An estimate of the 5-year CDS spread, calculated from the equity-based EDF measure. The fair-value spread is the credit spread calculated using the Sector LGD provided in CreditEdge Plus.

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