STANDARD &POOR'S

Guide to Ratings Performance

How does
Standard & Poor's
measure
performance?

UNDERSTANDING RATINGS

The origin of Standard & Poor's Credit Ratings

Standard & Poor's Ratings Services traces its history back to 1860, the year that Henry Varnum Poor published the History of Railroads and Canals of the United States.

Poor was concerned about the lack of quality information available to investors and embarked on a campaign to publicize details of corporate operations. Standard & Poor's has been publishing credit ratings since 1916, providing investors and market participants worldwide with independent analysis of credit risk.

Introduction

The **Guide to Ratings Performance** explains what ratings performance is, how Standard & Poor's measures it, and why it is important. Specifically, this guide describes how we frame our research and analyze default activity in relation to the credit ratings that we assign to borrowers and the securities they issue and the movement of credit ratings over time. The guide also outlines the role that our performance studies play in helping to identify potential opportunities for revising our ratings criteria and enhancing comparability of ratings across fixed-income asset classes and geographies.

This guide points out several important things about ratings performance:

> Our ratings performance studies have historically shown a strong correlation between higher ratings and lower default rates, and between lower ratings and higher default rates.

> These studies show that when looking across multiple economic cycles, higher ratings have tended to change less frequently, while lower ratings have been more volatile.

> Our studies also show that among defaulting issuers or securities, the period of deteriorating creditworthiness before default was usually shorter for lower ratings.

> The overall consistency of ratings performance demonstrated by our default and credit rating transition studies we believe has helped to establish Standard & Poor's ratings as useful benchmarks of relative credit risk.

> As a result of their broad perspective, performance studies are one of the tools that Standard & Poor's uses to refine and recalibrate ratings criteria so that ratings perform as intended.

**To learn more about ratings performance, visit
www.UnderstandingRatings.com**
or
www.AboutCreditRatings.com

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Ratings Performance**

What ratings performance is

Standard & Poor's credit ratings express forward-looking opinions about the relative creditworthiness of borrowers and the securities they issue. In our view, the likelihood of default is the centerpiece of creditworthiness. Accordingly, ratings performance studies are primarily a tool we use to measure how well the credit ratings we have assigned correlate with observed default frequencies over a specific period of time.

What this means is that if ratings perform as expected, issuers and issues with high ratings, such as 'AAA' and 'AA', would be expected to default less frequently than those with lower ratings, such as 'B' or 'CCC'. More generally, if ratings perform as intended, the issuers or securities that default should be rated lower than those that do not. Defined this way, ratings performance studies are a tool we use for evaluating how well Standard & Poor's has ranked issuers and securities based on their relative creditworthiness. Being primarily focused on likelihood of default,

our ratings performance studies do not encompass other considerations such as investment returns for the securities we rate.

Ratings tend to change as creditworthiness is either strengthened or adversely affected by movements in the economy and shifting business conditions. The transition patterns gleaned from the analysis of rating upgrades and downgrades are an important component of performance measurement. Since our performance studies analyze both default patterns and trends in rating movements, we refer to them collectively as default and transition studies.

Although performance data are available monthly and quarterly, we generally publish our default and transition studies on an annual basis. Within each of the major segments of the fixed income market, our studies may emphasize different aspects of ratings performance,

What are credit ratings?

Credit ratings are designed primarily to be our forward-looking opinions about creditworthiness. Ratings are not measures of absolute default probability. But rather, we use our rating scale to rank issuers and securities based on our view of their relative creditworthiness. That means we assign higher ratings to issuers or securities whose default likelihood, in our view, is lower compared with issuers or securities that receive one of the lower ratings on our scale. Our ratings are not intended to be advice or guarantees of credit quality but just one factor investors may consider in making investment decisions. You can learn more about credit ratings in Standard & Poor's "Guide to Credit Rating Essentials" or at **www.UnderstandingRatings.com** and **www.AboutCreditRatings.com**.

such as the credit strength of assets used for collateral in structured finance securities, or how evolving commitments to budgetary discipline among local and regional governments are affecting creditworthiness. Typically, however, our performance studies contain a summary of the macroeconomic environment and financing trends for the period covered as well as analyses of the ratings that contribute most to default activity. With this broad perspective on the ratings landscape, we are able to provide some context for those areas where ratings performed as expected and elaborate on areas where performance varied from historical patterns.

Default analysis

Our analysis of default activity is primarily focused on the number of issuers or securities we rate rather than on the amount of outstanding debt that is affected by defaults. This means that the default rates we calculate are count-weighted rather than value-weighted. In our view, focusing on the percentage of rated issuers or issues that default within a specific time period, rather than on the amount of debt associated with those defaults, makes it easier to spot underlying trends—for example, whether high or low ratings are contributing most to default activity. That's because, in our view the count-weighted approach addresses the potential for default rates to be influenced by defaults involving very large or very small amounts of debt. Although we do not calculate value-weighted default rates, our performance studies may include information about the amount of outstanding debt associated with rating movements or default activity.

Our default analysis considers both the initial rating and the progression of the rating prior to default. For example, if we initially rated an issuer 'BB-' in 2001 and subsequently downgraded the rating to 'CCC' in 2004, a year before it defaulted, our analysis would consider both the initial rating as well as the downgrade. By factoring the initial rating into our analysis and noting when it was assigned, we can measure the length of time to default. For instance, our historical performance data suggest that higher-rated borrowers have typically been better able to withstand adverse business conditions. We have observed that the time to default for these borrowers is usually longer than it is for borrowers or securities of weaker creditworthiness. These multiple measures, therefore, help us to form views about the correlation between our ratings and default rates and to evaluate how well our ratings have performed.

Recovery. Recovery is the percentage of a debt instrument's outstanding principal that an investor can expect to receive back after a debt obligation defaults. Since the likelihood of default is our primary analytical focus in assigning ratings, we consider post-default recoveries to be a secondary dimension of ratings performance. Some of our performance studies explicitly address the recovery experience of defaulted securities. And we have observed that recovery rates for corporate securities tend to be low in years characterized by high defaults, and vice versa. This inverse correlation is what might generally be expected in times of stressed business conditions.

Transition analysis

Our transition analyses also focus on the number of issuers or issues, rather than on outstanding debt amounts. Accordingly, our transition rates measure the percentage of rated issuers or issues that experience a rating change. In tracking transition activity, we consider the movement of ratings we assign across rating categories over specific periods of time.

In particular, we study patterns of rating change to evaluate correlations between our ratings and the frequency and degree of change. Specifically, we consider the movement of issuers across different rating categories as well as the adjustments in ratings for issuers with investment grade versus those with non-investment grade ratings. The results of this type of transition analysis indicates that higher rating categories typically correlate with less movement and lower rating categories with greater movement.

Default and transition studies

Standard & Poor's default and transition studies have tracked the performance of structured finance obligations since 1974, government issuers since 1975, and corporate issuers since 1981. Our structured finance default studies focus on securities, while issuers are at the heart of our corporate and government default studies. We conduct our transition and default research both globally and regionally based on ratings coverage of issuers in more than 100 countries around the world.

In the wake of the latest financial crisis, there has been much discussion about the performance of credit ratings. We have conducted a comprehensive review of credit ratings. This review has demonstrated that ratings for nearly all asset classes performed broadly as expected in the face of the extreme stresses experienced during the recent financial crisis, with the exception of ratings on certain US residential mortgage-backed securities (RMBS) and collateralized debt obligations backed by structured finance collateral (SF-CDOs). The performance of ratings for certain US RMBS and SF-CDOs issued from 2005 through 2007 has been disappointing and below our expectations.

Our report entitled "A Global Cross-Asset Report Card of Ratings Performance In Times of Stress" (June 8, 2010), as well as details on the changes that Standard & Poor's has made based on lessons learned from the recent financial crisis, can be found on our public website, **www.UnderstandingRatings.com**, where we also post our current default and transition studies for issuers and securities.

Why measuring performance is important

The importance of measuring ratings performance is mainly about establishing a track record that can help investors and other financial market participants evaluate the usefulness of ratings as one input to be considered in assessing issuers or securities across sectors and geographies based on their relative default risk.

The value of our performance studies we believe stems in part from the forward looking nature of ratings and the relative complexity involved in identifying issuers that may default well before they encounter financial distress. In other words, while ratings look to evaluate creditworthiness under future business and market circumstances, performance measures look at creditworthiness, as denoted by our assigned rating, in the context of actual defaults and transitions.

In addition, we use performance studies to highlight potential opportunities for refining criteria and enhancing the comparability of our ratings. The studies therefore also play a role in building confidence in ratings as credit risk benchmarks.

Ratings change over time
Since credit ratings are not static—they can and do change over time—performance studies we believe are important for tracking these changes and interpreting their significance. As

part of our ongoing monitoring process, we may adjust our rating opinions if our assessment of the credit quality or creditworthiness of a rated issue or issuer changes in ways we did not anticipate either when the rating was last revised or at the time we first assigned the rating. Our performance studies facilitate this type of comparative analysis of expected and actual outcomes, allowing us to establish a track record for our rating assumptions.

Significance of ratings performance for investors
Transition rates in our view are helpful to investors and credit professionals because they show the movement of different ratings over specific time horizons. For example, investors who seek to purchase only highly rated securities, and who are looking for some indication of the degree to which higher ratings may change over time, might view the historical record of rating defaults and transitions as one component of their investment research. Performance studies, therefore, can offer a framework for investors to assess a potential range of outcomes that might be associated with their credit risk tolerances.

Transparency
Recognizing that transparency is important to the clear understanding of our ratings performance, we widely publish our performance measurement

methodologies and the results of our default and transition research. By providing transparency about our rating assumptions and explaining how our assumptions about expected outcomes have held up, our performance studies offer an ongoing opportunity for investors and other credit professionals to consider the role that ratings might have in their assessments of credit risk. Our ratings are based on transparent, publicly available criteria and our performance studies are an extension of this emphasis on transparency.

Comparability

Performance studies can be used to assess the extent to which the ratings we assign are comparable across sectors and geographies. Standard & Poor's intends for each of our rating symbols—for example 'AA-'—to connote a comparable view of creditworthiness wherever and whenever it appears. This means, for example, we view all debt instruments that receive an 'A' rating as having roughly equivalent credit quality—for example, a corporate bond and an asset-backed security, even though they might pose different kinds of credit risk.

Comparability we believe enhances the usefulness of ratings for investors and other market participants as it allows them to use ratings as a common vocabulary for discussing credit risk.

One of the challenges to ensuring the comparability of ratings is that economic cycles can have varied influences on business conditions across geographic regions and among different market segments at any point in time. As a result, only over very long periods covering multiple economic cycles can we expect to observe whether similarly rated issuers and issues from different regions and segments actually experience similar long-term default frequencies. Because of the time horizons they can cover, we believe that ratings performance studies are especially well suited for identifying such long-term trends.

Refinements to ratings criteria

By identifying performance outliers, or statistical results that deviate from historical patterns, default and transition studies can help flag opportunities to reevaluate and revise the criteria that we use in our analysis. Our ratings criteria comprise our fundamental principles for analyzing credit risk, as well as the specific methodologies, ratings factors, and assumptions that we apply in our ratings process. For additional information about how we develop criteria and how our criteria evolve, please see the Standard & Poor's "Guide to Credit Ratings Criteria."

How ratings performance is measured

Unlike educational test scores that provide a single measure of how well students perform on their exams, there is no single yardstick for or standard approach to evaluating ratings performance. Over time, Standard & Poor's has evolved a system of multiple metrics involving statistical analyses, such as the calculation of cumulative average default and transition rates, as well as interpretative assessments of ratings performance.

Static pools

Standard & Poor's conducts its default and transition analyses on the basis of groupings called static pools. These pools are formed by sorting issuers or securities by rating category, such as 'AAA', at the beginning of each year covered by the study. An issuer or security initially rated in 2006, for example, is first included in a static pool for 2007. In subsequent years, issuers or issues continue to be tracked in static pools for each year they are rated. If their ratings are withdrawn (NR status), they are excluded from subsequent static pools. Defaulting issuers or issues are also excluded from subsequent static pools. When a default occurs, the default is assigned back to all of the static pools to which the defaulting issuer or issue belonged in prior years. Each pool is static in the sense that its membership remains constant over time, which makes it possible to establish a baseline and spot trends for rating movements on the same group of issuers or securities. This approach can be likened to a buy-and-hold portfolio and the ability to track its investment performance over time or in comparison with other securities portfolios.

Transition matrices

We use the static pool methodology to construct transition matrices. Since these matrices display all rating outcomes, they are a convenient way of tracking the migration of ratings from one point in time to another. Specifically, these matrices indicate whether, within the period being studied, a rating has changed and if so, whether or not the rating was upgraded or downgraded,

Example: How matrices reveal transition patterns

In looking at the migration of ratings over a one-year interval, the vertical axis of a transition matrix would display ratings at the start of the year while the horizontal axis would indicate where the ratings were at the end of that year. From this matrix, it would be possible to observe, for instance, that 90.34% of issuers rated 'BBB' at the start of the year remained 'BBB' at the end of the year, while 2.86% were upgraded to 'A', 1.9% were downgraded to 'BB', 0.14% were downgraded to 'B' and 4.76% of the ratings were withdrawn. In this example, we would say that 'the transition rate associated with 'BBB' issuers being upgraded to an 'A' rating was 2.86%.' As a reference, see the transition matrix displayed on page 15.

whether the issuer or issue defaulted, and whether the rating was withdrawn.

Because the transition matrix identifies migration patterns across rating categories, it is also possible to compare transition patterns for these categories. For example, we can observe:

> Whether 'A' rated issues experienced more downgrades than 'BBB' rated issues
> Whether a higher percentage of 'BB' rated issues remained unchanged compared with 'B' rated issues
> Whether a higher percentage of 'CCC' rated issues defaulted compared with 'B' rated issues

Cumulative average default rates
The static pool methodology also forms the basis of our analyses of defaults. For each static pool, Standard & Poor's calculates the annual marginal default rate (default rate for the first year, default rate for the second year, etc.) as a percentage of the number of surviving issuers or securities in the pool. There are separate pools for each rating category. These percentages are then combined to obtain cumulative (weighted) average default rates for the period of the study.

The cumulative average default rates we calculate are classified by sector (e.g., insurance companies, sovereign governments, or asset-backed securities), rating category, and region. The use of cumulative average default rates makes it possible to analyze the combined default experience of all static pools whereas, for example, with annual or quarterly default rates, the analysis is more narrowly focused on defaults that occur within the year or quarter under examination. Cumulative average default rates,

therefore, allow us to examine default activity for specific time horizons—for example, over all 1-year or 3-year intervals between 1981 and 1998, or for instance between 1987 and 2009.

The first static pool available for our global corporate default and transition research dates back to 1981. This means that at the end of 2008, for instance, it would have been possible to calculate cumulative average default rates for intervals of one year up to 28 years (the number of years between 1981 and 2008) and by the end of 2009 for up to 29 years. In practice, however, the cumulative average default rates that get the most attention are those in the 1- to 15-year horizon, since most debt obligations mature within that time frame.

The multi-period analysis of default activity facilitated by the static pool methodology allows us to overcome certain difficulties associated with estimating default rates. For example, some methods for calculating default rates might charge defaults against only the initial rating on the issuer, ignoring later rating changes that supply more current information. Other methods may calculate default rates using only the most recent year's default and rating data. However, these methods may yield comparatively low default rates during periods of high growth and relatively few defaults, as they ignore previous years' default activity.

For more information on our general approach, including a full explanation of how we calculate cumulative average default rates, please refer to the appendices of our default studies at **www.standardandpoors.com**.

How ratings performance is measured

Variation in cumulative average default rates and transition rates

As their name suggests, cumulative average default rates represent the average experience of issuers or securities that default. For example, a 1-year cumulative average default rate covering the period between 1985 and 1992 would represent the average 1-year default rate for all static pools within that 8-year period. To track the potential for each static pool's default rate to vary from the average, we also calculate standard deviation measures. We do this to provide transparency about the extent to which default rates might vary from the cumulative average rate we publish. We may similarly calculate standard deviation measures for the transition rates displayed in our transition matrices because they are also subject to variation.

Global corporate one-year default rates by rating category (%)

These annual default rates indicate the incidence of default is concentrated in the lower rating categories.

	AAA	AA	A	BBB	BB	B	CCC/C
1981	0.00	0.00	0.00	0.00	0.00	2.27	0.00
1985	0.00	0.00	0.00	0.00	1.48	6.44	15.38
1990	0.00	0.00	0.00	0.58	3.56	8.54	31.25
1995	0.00	0.00	0.00	0.17	0.98	4.59	28.00
2000	0.00	0.00	0.26	0.37	1.25	7.73	34.12
2005	0.00	0.00	0.00	0.07	0.20	1.73	8.94
2010	0.00	0.00	0.00	0.00	0.55	0.80	22.27

Source: Standard & Poor's Global Fixed Income Research, Standard & Poor's CreditPro®.

Global corporate average cumulative default rates 1981-2010 (%)

Over each time horizon lower ratings corresponded to higher default rates.

Time horizon (years)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
AAA	0.00	0.03	0.14	0.26	0.38	0.50	0.56	0.66	0.72	0.79	0.83	0.87	0.91	1.00	1.09
	(0.00)	(0.20)	(0.39)	(0.47)	(0.59)	(0.69)	(0.75)	(0.82)	(0.83)	(0.83)	(0.83)	(0.84)	(0.84)	(0.91)	(0.99)
BBB	0.25	0.70	1.19	1.80	2.43	3.05	3.59	4.14	4.68	5.22	5.78	6.24	6.72	7.21	7.71
	(0.27)	(0.60)	(0.88)	(1.09)	(1.32)	(1.48)	(1.59)	(1.61)	(1.64)	(1.57)	(1.40)	(1.33)	(1.19)	(1.04)	(1.00)
CCC/C	27.39	36.79	42.12	45.21	47.64	48.72	49.72	50.61	51.88	52.88	53.71	54.64	55.67	56.55	56.55
	(12.69)	(13.97)	(13.61)	(14.09)	(14.05)	(12.98)	(12.70)	(12.10)	(11.65)	(10.47)	(10.75)	(11.42)	(12.06)	(10.38)	(9.61)

Note: Numbers in parentheses are standard deviations associated with default rates.
Source: Standard & Poor's Global Fixed Income Research, Standard & Poor's CreditPro®.

Measuring ratings performance with Gini coefficients

Standard & Poor's uses Gini coefficient analysis as an interpretive measure for assessing how our credit ratings perform. The Gini coefficient measures, on a scale of 0 to 1, whether defaulting issuers or issues were rated lower than those that did not default during a specific time period. In addition, since it is possible to calculate Gini coefficients for multi-period intervals, we can measure, as an example, whether defaulting entities within a 1- or 7-year interval were rated lower than entities that did not default during that time. In this way, the Gini coefficient can be another tool for evaluating Standard & Poor's ranking of issuers and securities based on our view of their relative creditworthiness.

The calculation of Gini coefficients involves a comparison of the cumulative proportion of defaults attributed to each rating level with the cumulative proportion of issuers or issues in each rating level, from our lowest rating of 'C' to the highest rating of 'AAA' on our rating scale. A high Gini coefficient that is close to the maximum value of 1 generally indicates a relatively high percentage of defaults occurred among lower rated issuers or issues. A low Gini coefficient, which results when defaults are more evenly spread across rating categories, indicates no significant correlation between ratings and default rates.

# How ratings performance is measured

Observing ratings performance with Lorenz curves

The Gini coefficient is a summary statistic of the Lorenz curve, which is a graphical representation that plots the cumulative percentage of issuers or issues by rating category against the cumulative percentage of those that defaulted. If the Gini coefficient were at its maximum value of 1, and all defaults occurred only among the lowest rated issuers or issues and all issuers or issues with the lowest rating defaulted, then the Lorenz curve would approximate the shape of the ideal curve, we believe indicating a strong correlation between credit ratings and rates of default. On the other hand, a random Lorenz curve indicates that defaults are not concentrated in low ratings but rather are more widely spread across high and low ratings.

Global corporate seven-year relative ratings performance (1981-2010)

Issuers rated 'B+' or lower represented 17% of the rated universe and accounted for 61% of defaults, over all 7-year intervals between 1981 and 2010. The Gini coefficient associated with this measure of ratings performance was 0.71.
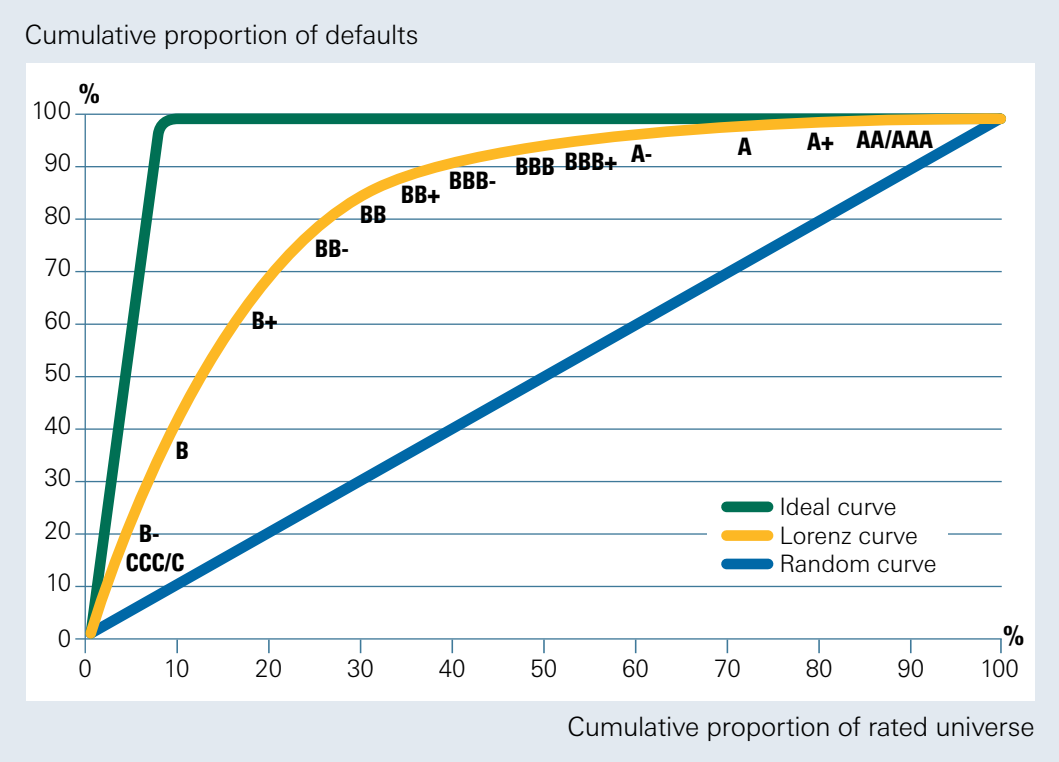
Source: Standard & Poor's Global Fixed Income Research, Standard & Poor's CreditPro®.

What our ratings performance studies show

Standard & Poor's long track record of ratings performance we believe has yielded a number of important findings and observable patterns concerning default and transition rates.

Higher credit ratings have typically correlated with lower default rates
Our default studies have historically shown a strong correlation between ratings and default frequencies: generally the higher the rating, the lower the frequency of default, and vice versa. In other words, default rates have tended to rise with each step down the rating scale. In addition, our performance studies have typically shown that what market participants generally refer to as investment grade ratings ('BBB-' and above) have been associated with markedly lower default rates than non-investment grade ratings (below 'BBB-').

Our performance studies also show that the historical relationship between higher ratings and lower default rates applies to each of the three broad market segments—corporate, public finance, and structured finance—indicating we believe a broad comparability of our rating designations across these segments.

Our studies also show that among defaulting issuers or securities, the period of deteriorating creditworthiness before default was usually shorter for lower ratings. Conversely, the higher rated issuers or securities that default tended to do so over longer time horizons because their stronger creditworthiness typically gave them the financial flexibility to deal with economic downturns or adverse business conditions.

Defaults have typically correlated with lower credit ratings

Corporate credit defaults since the beginning of 1981 have come mainly from lower-rated issuers. For example, of all the companies in our rated universe that defaulted from 1981 – 2010, no entity rated 'AAA' registered a default within five years of its initial 'AAA' rating assignment. For those that did default, their average time to default was 16 years from the original rating assignment (or Dec. 31, 1980, whichever is later). Within that 30-year time span, only seven companies originally rated in the 'AAA' rating category have ever defaulted.

On the other hand, issuers initially rated in the 'B' rating category accounted for 1,090 defaulters, or 54.1% of the total number of defaults, from 1981 – 2010. Their average time to default was less than five years from the original rating assignment. And the occurrence of default within the 'B' rating category was more than double the occurrence of default within the 'BB' rating category, based on initial rating assignments.

What our ratings performance studies show

Global corporate one-year default rates (1981-2010)

Corporate investment grade default rates, expressed as a percentage of issuer count, have historically been below non-investment grade default rates.
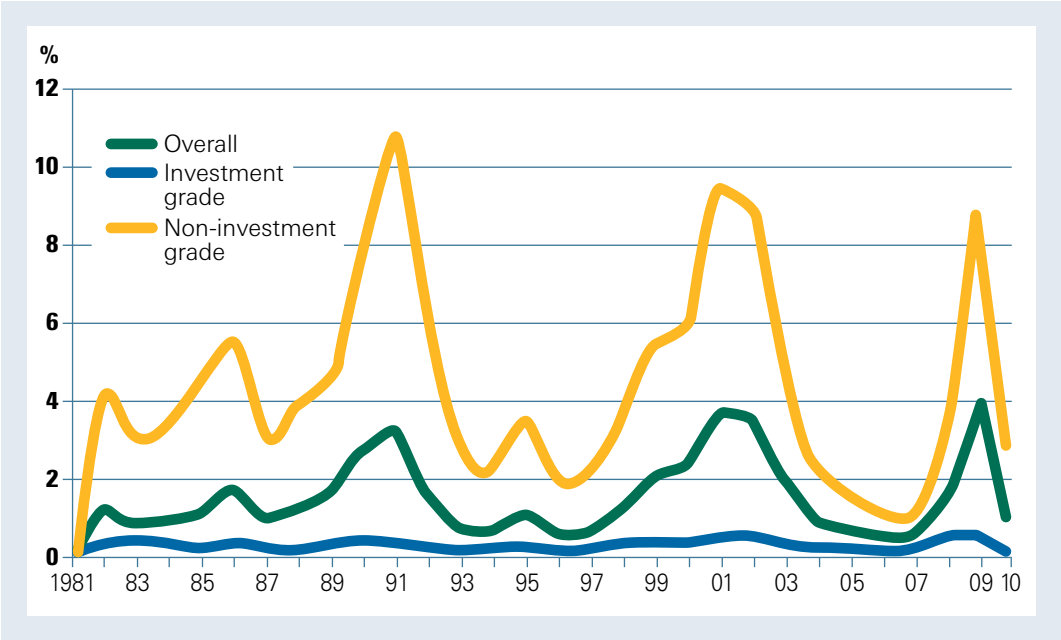
Source: Standard & Poor's Global Fixed Income Research, Standard & Poor's CreditPro®.

Higher ratings have typically been less volatile than lower ratings

Standard & Poor's transition studies have repeatedly confirmed that investment grade debt has typically experienced less volatility than non-investment grade debt. This means, for example, a higher proportion of 'A'-rated issuers and issues would have typically retained their 'A' rating during a specified time period, compared with a smaller portion of 'B'-rated issuers and issues for that same period.

Ratings have generally been more volatile over time

Ratings have generally been more volatile over longer time periods. For example, transition rates over a ten-year period have shown greater volatility than one-year transition rates. This could stem from, for example, the broader range of unexpected business conditions that can affect credit quality over time, such as the emergence of new technology or a company being acquired by another firm.

2010 Global corporate transition rates (%)

Most investment grade rated corporate issuers experienced less ratings volatility in 2010 than their non-investment grade counterparts.

From/to	AAA	AA	A	BBB	BB	B	CCC/C	D	NR
AAA	73.61	25.00	0.00	1.39	0.00	0.00	0.00	0.00	0.00
AA	1.33	82.76	10.08	0.00	0.00	0.00	0.00	0.00	5.84
A	0.07	1.11	92.32	3.54	0.00	0.07	0.00	0.00	2.88
BBB	0.00	0.00	2.86	90.34	1.90	0.14	0.00	0.00	4.76
BB	0.00	0.00	0.00	5.61	81.74	3.85	0.11	0.55	8.14
B	0.00	0.00	0.09	0.00	6.26	81.32	2.06	0.80	9.47
CCC/C	0.00	0.00	0.00	0.00	0.45	29.55	33.64	22.27	14.09

Source: Standard & Poor's Global Fixed Income Research, Standard & Poor's CreditPro®.

Cross-asset report card of recent ratings performance

In the wake of the latest financial crisis, there has been much discussion about the performance of credit ratings. We have conducted a comprehensive review of credit ratings. This review has demonstrated that ratings for nearly all asset classes performed broadly as expected in the face of the extreme stresses experienced during the recent financial crisis, with the exception of ratings on certain U.S. residential mortgage-backed securities (RMBS) and collateralized debt obligations backed by structured finance collateral (SF-CDOs). That is, rated credits generally withstood the recent financial crisis with results in line with our expectations for the economic environment. In contrast, the performance of ratings for certain U.S. RMBS and SF-CDOs issued from 2005 through 2007 has been disappointing and below our expectations.

Although we believe that the recent underperformance for ratings of certain U.S. RMBS and SF-CDOs is not reflective of a larger trend, Standard & Poor's has studied the lessons of the recent financial crisis and instituted a number of measures as a result. For example, we have made significant enhancements to our criteria for rating U.S. RMBS, CMBS, and CDOs. Overall, these criteria measures are intended to make it more difficult for securities in the sectors that have displayed poor credit performance in

What our ratings performance studies show

the recent past to achieve high ratings. In addition, Standard & Poor's has expressly incorporated credit stability as an important factor in its ratings criteria. When assigning and monitoring ratings, we consider whether we believe an issuer or security has a high likelihood of experiencing unusually large adverse changes in credit quality under conditions of moderate stress. In such cases, we may assign the issuer or security a lower rating than we would have otherwise.

Global corporate average transition rates 1981-2010 (%)

Ratings are generally more volatile over longer periods of time.

One year	AAA	AA	A	BBB	BB	B	CCC/C	D	NR
AAA	87.91	8.08	0.54	0.05	0.08	0.03	0.05	0.00	3.25
	(5.65)	(5.69)	(0.86)	(0.29)	(0.26)	(0.20)	(0.39)	(0.00)	(2.44)
BBB	0.01	0.13	3.70	84.55	3.98	0.66	0.15	0.25	6.56
	(0.07)	(0.23)	(2.33)	(4.57)	(1.84)	(1.04)	(0.24)	(0.27)	(1.84)
CCC/C	0.00	0.00	0.19	0.28	0.83	13.00	43.82	27.39	14.48
	(0.00)	(0.00)	(0.72)	(1.04)	(1.32)	(8.42)	(12.94)	(12.69)	(7.48)
Three year									
AAA	68.09	18.85	2.46	0.34	0.14	0.08	0.11	0.14	9.78
	(8.31)	(7.67)	(1.62)	(0.85)	(0.39)	(0.35)	(0.51)	(0.39)	(5.12)
BBB	0.03	0.41	8.90	61.42	7.44	2.12	0.36	1.20	18.12
	(0.10)	(0.54)	(4.06)	(7.71)	(2.69)	(1.77)	(0.51)	(0.88)	(3.45)
CCC/C	0.00	0.00	0.29	0.91	2.05	16.04	12.39	40.47	27.85
	(0.00)	(0.00)	(0.87)	(2.38)	(3.45)	(7.54)	(11.47)	(13.61)	(11.85)
Seven year									
AAA	42.67	26.23	7.34	1.73	0.22	0.09	0.13	0.47	21.12
	(4.66)	(5.23)	(2.44)	(2.16)	(0.50)	(0.35)	(0.35)	(0.75)	(7.00)
BBB	0.05	0.95	10.84	38.66	7.82	2.91	0.40	3.81	34.56
	(0.17)	(0.55)	(3.93)	(6.26)	(0.89)	(1.33)	(0.53)	(1.59)	(3.66)
CCC/C	0.00	0.00	0.38	1.44	4.02	7.73	1.52	50.11	34.80
	(0.00)	(0.00)	(0.94)	(4.77)	(2.60)	(3.92)	(4.53)	(12.70)	(10.84)

Note: Numbers in parentheses are standard deviations associated with transition rates.
Source: Standard & Poor's Global Fixed Income Research, Standard & Poor's CreditPro®.

Standard & Poor's thanks Lightbulb Press for its collaboration in developing the *Guide to Ratings Performance*.

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