MOODY'S
INVESTORS SERVICE

CROSS-SECTOR RATING METHODOLOGY

Short-Term Ratings

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Analyst Contacts:

NEW YORK +1.212.553.1653

Kenneth Emery +1.212.553.4415
Senior Vice President/RPO
kenneth.emery@moodys.com

Jeffrey Berg +1.212.553.3611
Associate Managing Director/RPO
jeffrey.berg@moodys.com

LONDON +44.20.7772.5454

William Coley +44.20.7772.8799
Associate Managing Director/RPO
william.coley@moodys.com

HONG KONG +852.3551.3077

Clara Lau +852.3758.1333
Senior Vice President/RPO
clara.lau@moodys.com

This rating methodology replaces "Short-Term Ratings", last revised on May 10, 2019. We have clarified how we may assign ratings on the VMIG scale to certain types of US municipal market debt transactions where the ultimate obligor is a private sector entity. This update does not change our methodological approach.

Introduction

This report summarizes our approach for determining short-term ratings on the Global Short-Term Rating Scale. This methodology applies globally.[1]

Our short-term ratings are opinions on the relative likelihood of timely payment and severity of loss in the event of non-payment on short-term financial obligations, including commercial paper. This document provides additional guidance on the characteristics that drive short-term ratings. These ratings are typically assigned to issuers, but may also be assigned to short-term programs or to individual short-term debt instruments. Such obligations have an original expected maturity not exceeding thirteen months. Issuers of short-term obligations rated by us include corporations, governments, financial institutions, sovereigns, and sub-sovereigns. The methodologies used to assign short-term ratings to structured finance vehicles are discussed elsewhere.[2]

We assign short-term ratings based on the Global Short-Term Rating scale to indicate the relative short-term repayment ability of rated issuers. Our principal short-term rating scale is: P-1 (the highest achievable), P-2, P-3 and NP.[3]

While global short-term ratings are not assigned with an explicit default rate expectation in mind, there is a strong expectation that issuers rated Prime will rarely default on their short-term obligations. Indeed, historical default rates on short-term obligations have been very low, and increase only modestly moving down the rating scale from P-1 to P-3, with a more meaningful jump in default rates for obligors rated NP.

1 This update may not be effective in certain jurisdictions until certain requirements are met.
2 For details, see our methodology for rating asset-backed commercial paper under the Moody's Related Publications section.
3 For the definitions of short-term ratings, see *Rating Symbols and Definitions* under the Moody's Related Publications section.

Short-Term Ratings Assigned to Corporations, Financial Institutions, Sovereign, and Sub-Sovereigns Other than US Municipalities

Common Credit Characteristics Drive Long-Term and Short-Term Credit Risk

Most issuers with short-term ratings also have long-term credit ratings. In general, the higher an issuer's long-term rating, the lower the risk of default associated with the issuer's short-term debt. The reason for this relationship is relatively straightforward: the credit characteristics that make issuers unlikely to default over the long-run are the same characteristics that make them unlikely to default over the short-run. Issuers with high long-term ratings have strong credit profiles, including features such as ample liquidity, strong franchises, and substantial capital buffers, which make for a low probability of a sudden unexpected default event or insolvency.

Corporate and non-bank financial institution issuers rated Prime typically maintain sufficient liquidity, normally in the form of committed credit facilities and liquid assets, such that they are expected to be able to withstand losing access to both short-term and long-term debt markets for at least a year. In some cases, the long-term and short-term ratings of a subsidiary incorporate expectations of nearly certain timely support from the parent and the rating of the parent is the principal or the sole determinant of the rating of the subsidiary. Such cases can include essential subsidiaries with support agreements that fall short of a guarantee. In some such instances, we might consider liquidity resources that reside with the parent in our assessment of the subsidiary's liquidity.

The analysis supporting the determination of short-term ratings for banks can be more challenging because of the need to consider expectations related to third-party support in setting both their long and short-term ratings. Banks rated Prime also typically maintain liquidity in the form of liquid assets and access to unsecured interbank markets, as well as eligible sufficient collateral that can be used to access central bank funding. Both long-term and short-term ratings assigned to banks incorporate any expected support from a parent, government, central bank or other sources. Similar to non-bank issuers, a Prime rated bank is expected to have sufficient available liquidity to be able to withstand losing access to both short-term and long-term debt markets for at least a year. However, a bank with a stand-alone liquidity profile that would otherwise be inconsistent with a Prime rating may still be eligible for a Prime rating if it is currently receiving support or if there is a strong expectation that the support necessary to keep the bank liquid and solvent is forthcoming. We would, however, generally view a bank that is heavily reliant on ongoing external support as not being consistent with a Prime-1 rating.

Sovereign governments rated Prime also typically have unconstrained access to liquidity and international capital markets, while regional and local government issuers and not-for-profit issuers rated Prime typically maintain sufficient liquidity, normally in the form of committed credit facilities and liquid assets.

Consequently, the key determinant for assigning a short-term rating to an issuer is that issuer's long-term risk of default. As a result, an issuer's short-term rating is normally derived from its long-term rating as shown by the mapping in Exhibit 1.[4] Furthermore, the rating methodologies used to determine long-term ratings, which include a prominent role for liquidity analysis, are directly applicable to our short-term ratings.[5]

[4] Where there is no published long-term rating, an assessment of long-term credit characteristics is considered in the determination of the short-term rating.

[5] The credit rating methodologies covering our approach to these considerations can be found under the Moody's Related Publications section.

EXHIBIT 1

Standard Mapping for Long-Term Global Ratings to Short-Term Global Ratings

Long Term Rating	Short Term Rating
Aaa	Prime-1
Aa1	Prime-1
Aa2	Prime-1
Aa3	Prime-1
A1	Prime-1
A2	Prime-1
A3	Prime-1 / Prime-2
Baa1	Prime-2
Baa2	Prime-2 / Prime-3
Baa3	Prime-3
Ba1, Ba2, Ba3	Not Prime
B1, B2, B3	Not Prime
Caa1, Caa2, Caa3	Not Prime
Ca, C	Not Prime

Note: While the mapping in Exhibit 1 includes some overlap in the short-term rating that can be assigned from a given long-term rating, issuers with long-term ratings between A3 and Baa2 typically map to P-2. Also, we do not assign separate outlooks to our short-term ratings as we believe this could cause confusion with our outlooks for our long-term ratings, especially given the mapping of multiple long-term ratings to unique short-term ratings levels and the overlap in mappings at certain parts of the scale.

Source: Moody's Investors Service

Mapping From Long-Term Ratings to Short-Term Ratings in Practice

As reflected in the mapping in Exhibit 1, a Prime rating requires an obligor to be rated investment-grade on the long-term global scale. The mapping is intentionally somewhat mechanical, reflecting the close relationship between the credit risk associated with long-term and short-term obligations. As noted above, other things being broadly equal, lower long-term ratings imply not only increased default risk for long-term obligations but also increased default risk for short-term obligations.

While the mapping in Exhibit 1 includes some overlap in the short-term rating that can be assigned from a given long-term rating[6], issuers with long-term ratings from A3 to Baa2 typically map to P-2.

In the rare cases where these standard mapping assignments do not hold, it usually reflects the view that there is unusually high rating transition risk associated with the long-term rating and/or perceived strengths or weaknesses of alternate liquidity provisions that may affect expected short-term default risk.

Given the extremely high probability of repayment associated with Prime-1 rated commercial paper, non-bank issuers (or bank issuers without direct central bank access) at this rating level are expected to maintain exceptionally strong liquidity characteristics. This normally includes alternate liquidity provisions through committed bank facilities that are at least as large as total short-term debt, including maximum anticipated commercial paper outstanding. Such back-up liquidity facilities should feature access to same-day available funds in the market of commercial paper issuance and have no restrictions

6 In some cases, an issuer's published long-term rating does not map to its short-term rating because the ST rating represents a more senior security class. These circumstances are most likely to arise for banks under a resolution regime that establishes a higher priority of claim for ST debt than for LT debt. For example, a bank with LT debt rated Baa1 might have a ST rating of Prime-1 that reflects seniority of ST claims over LT claims under the bail-in regime that applies to the bank.

on funding related to material adverse changes in the borrower's financial condition. In some cases, our liquidity analysis also gives credit to cash holdings and a portion of near-cash investments that are maintained at a stable level for long periods of time. Without highly reliable liquidity, a non-bank issuer rated A2 or higher would typically not achieve a Prime-1 rating on its commercial paper. A relatively aggressive approach to liquidity can result in a lower long-term rating as well as a lower short-term rating.

It is extremely rare for an issuer to be rated A3/P-1; this tends to occur only where there is an unusually high expectation that the issuer's long-term rating will migrate upwards over the short-term (perhaps because of an event that is likely but not certain). In such circumstances, therefore, the rare A3/Prime-1 outcome tends to persist for only a short period of time. Also, a P-1 short-term rating may, on rare occasions, be compatible with an A3 long-term rating for a short period of time, generally where support from a higher-rated affiliate or government is virtually certain in the near term, but with support over a longer period of time being less predictable.

In cases where the usual mapping assignments do not hold, the specific short-term rating assigned may be influenced by an external guarantee, credit enhancement or other factors that create a material divergence in the default risk associated with an issuer's short-term and long-term debt. For example, when a parent guarantees the short-term debt of a subsidiary issuer, the subsidiary's short-term rating may map to the parent's long-term rating rather than its own.

Finally, in some cases, an issuer may not have a long-term global rating or its equivalent outstanding. In those cases, the short-term rating is assigned on the basis of an unpublished, underlying long-term issuer rating.

Transition Risk from Prime to Not Prime Reflects Long-Term Rating Transition Risk to Speculative Grade

The mapping in Exhibit 1 reflects not only the predictive content of long-term ratings for short-term default risk but also for the risk of an obligor's long-term rating transitioning to speculative-grade from investment-grade. In other words, the transition risk of an issuer's short-term rating falling from Prime to Not Prime is directly tied to the transition risk of the issuer's long-term rating falling from investment-grade to speculative-grade. When the global short-term rating system was first developed, an issuer or instrument assigned a P-1 rating was thought to be at least three years away from Not Prime, a P-2 rating at least two years from Not Prime, and a P-3 rating at least one year from Not Prime.

Importantly, because the mapping in Exhibit 1 is not one-to-one, the transition risk for an individual issuer's Prime rating to Not Prime depends on that issuer's long-term rating. For example, the transition risk to Not Prime for a P-1 issuer with a Aa1 rating is much lower than for a P-1 issuer with an A2 rating. Similarly, average historical transition rates for P-1 issuers moving to Not Prime will depend on the distribution of long-term ratings for issuers with P-1 ratings.

In contrast to default rates, which remain very low through the Prime scale, the transition risk to Not Prime typically increases strongly as the rating moves down the Prime rating scale. In general, the transition risk for an individual short-term rating moving from Prime to Not Prime is provided by the transition risk of the issuer's long-term rating moving to speculative grade.

The standard mapping in Exhibit 1 is applied to all types of issuers notwithstanding different historical rating transition risks associated with short-term obligations of different types of issuers. Financial institutions – particularly banks – are inherently more prone to destabilizing shocks than are other types of similarly rated issuers. As a result, we would be highly unlikely to assign a P-1 rating to a bank with an A3 long-term rating, particularly if the bank's rating outlook was negative or stable. Despite the inherent rating transition risk common in banking, we are comfortable assigning P-1 short-term ratings to A2-rated banks because we expect external liquidity will generally be made available to banks from their central banks.

Short-Term Ratings Assigned to US Municipalities and Nonprofits

Most US municipal short-term ratings are assigned to states, local governments or nonprofits that issue cash flow notes, bond anticipation notes or other instruments whose repayment depends on the issuer's available liquid resources or access to the capital or credit markets. For these transactions, we use one of two short-term rating scales, the Municipal Investment Grade (MIG) or the Variable Municipal Investment Grade (VMIG) scale. We use the MIG scale for fixed rate short-term transactions and the VMIG scale for variable rate transactions.[7]

For a re-marketable industrial revenue bond (IRB) and similar types of debt issuances where a municipal entity is the nominal issuer and the rating is based on the creditworthiness of an underlying private sector obligor, e.g., a corporation, the short-term rating may be assigned using the Prime scale or the VMIG scale. Where we use the VMIG scale for these ratings, the numerical modifier is determined solely by mapping from the Prime rating of the underlying obligor. For example, if the short-term rating of the corporate obligor of an IRB is Prime-1, or would be Prime-1 based on the application of this methodology, the short term rating for the IRB under the VMIG scale would be VMIG-1.

However, US states, local governments or nonprofits issuing tax-exempt commercial paper programs, whether backed by a letter of credit (LOC), external liquidity facilities or an issuer's self-liquidity, are assigned ratings on the global short-term scale. The short-term rating for a commercial paper program backed by an LOC or external liquidity facility is usually mapped from the enhancement provider's long-term rating, not the municipality's long-term rating.

[7] See our methodology for assigning short-term ratings to US municipalities and nonprofits. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

Moody's Related Publications

Credit ratings are primarily determined by sector credit rating methodologies. Certain broad methodological considerations (described in one or more cross-sector rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments. An index of sector and cross-sector credit rating methodologies can be found here.

For data summarizing the historical robustness and predictive power of credit ratings, please click here.

For further information, please refer to *Rating Symbols and Definitions*, which is available here.

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Author
Kenneth Emery
Geordie Thompson

Production Specialist
Joby Mathew