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Ratings

Critical Analysis and New Approaches of
Quantitative and Qualitative Methodology

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*Dedicated to our dear children and to our
nice grandchildren*

Preface

The monograph develops new modern methodologies for rating of non-financial issuers and of project ratings based on the use of the modern theory of capital cost and capital structure (BFO theory—Brusov–Filatova–Orekhova theory) and of its two perpetuity limits (Modigliani–Miller theory (MM theory) and the modified Modigliani–Miller theory (MMM theory)), as well as modern investment models created by the authors.

In order to modify and improve existing rating methods to increase the objectivity and correctness of rating estimates, the monograph critically analyzes the methodological and systemic shortcomings of the existing credit rating of non-financial issuers and project rating. The modern theory of capital cost and capital structure (BFO theory) for companies of arbitrary age and its two perpetuity limits (Modigliani–Miller theory and modified Modigliani–Miller theory) have been modified for rating needs. The incorporation of financial ratios used in the rating methodology was carried out both in the BFO theory and in its perpetuity limits: in the Modigliani–Miller theory and in the modified Modigliani–Miller theory. A fundamentally new approach to the rating methodology has been developed, which includes the adequate application of discounting, which is practically not used in existing rating methodologies, when discounting the financial flows; the use of rating parameters under discounting of financial flows; and the correct determination of discount rates taking into account the financial ratios.

The proposed improvement of the rating methodology of existing rating systems will improve the accuracy of issued ratings and make them more objective. Using in rating methods the modern theory of corporate finance, tools of well-developed theories of corporate finance (BFO theory and its perpetuity limits) allow us to move in the rating industry from the use of mainly qualitative rating methods to the use of mainly quantitative methods, which opens up new horizons in issuer rating and in determination methods their creditworthiness.

This book is intended for managers and analysts of rating agencies, students, both undergraduate and postgraduate, students of MBA program, teachers of economic and financial universities, students of MBA program, scientists, financial analysts, financial directors of company, managers of insurance companies, officials of regional and federal ministries and departments, and ministers responsible for economic and financial management.

Kronburg, Moscow, Russia
20 June 2020

Peter Brusov

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