

# IIRA's Approach to Ratings

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- The importance of credit ratings to investors and other market participants has increased significantly, as it impacts:
  - an issuer's access to and cost of capital
  - structure of financial transactions
  - ability of fiduciaries and others to make investments
  - flow of money across borders
  - transparency and documentation in economies
  - benchmarking of risks in the market

ROLE OF  
RATING  
AGENCIES

Corporate

Sovereign

Instrument

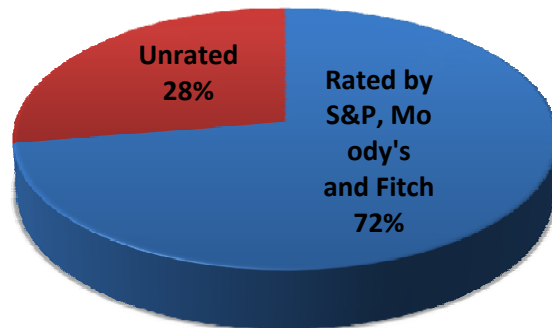
Corporate  
Governance

Insurance

Mutual  
Funds

Types of Ratings

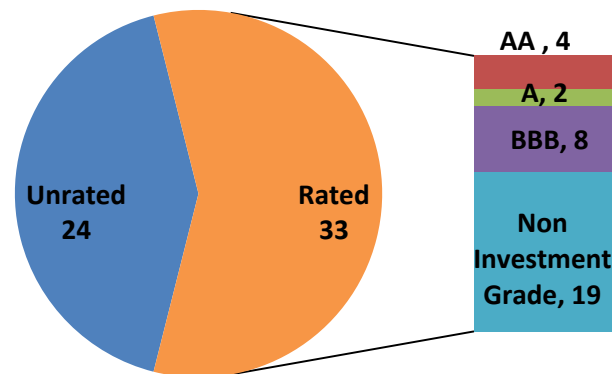
## Outstanding Sovereign Ratings



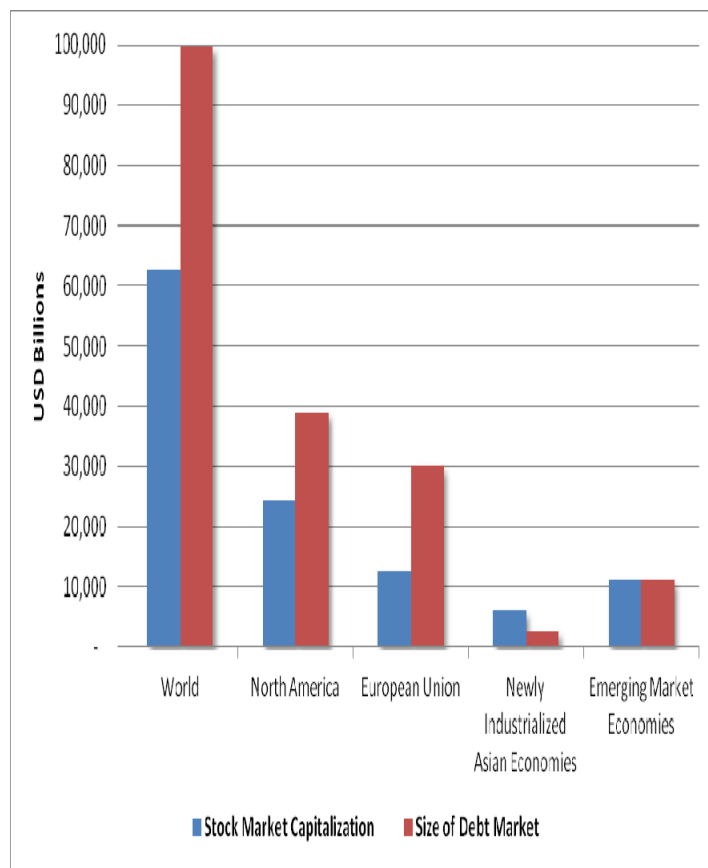
Globally, 142 rated and 54 unrated  
18 countries rated 'AAA'

Of the OIC countries, 24 unrated;  
Of the rated universe, 56% in  
non-investment grade

## OIC Countries



THE UNIVERSE  
OF SOVEREIGN  
RATINGS



- Size of Global Debt Market estimated at USD 100 Trn in mid-2013; Grown from USD 70 Trn in mid-2007;
- Outstanding Debt Domestically issued by Governments & Non-financial Corporations estimated at USD 43 Trn (80% higher than in mid-2007);
- Quantum of Domestically issued debt by Non-financial Corporations surpassed USD 10 Trn;
- Growth of International Debt Market sluggish as Financial Sector deleveraging after financial crisis; grew by merely 19% since mid-2007;
- The share of Emerging Market Debt Securities held by Cross-border Investors grew to 12% in 2012; Doubled since 2008.

## Global Debt Markets

Number of Outstanding Credit Ratings by Rating Category*						
NRSRO	Financial Institutions	Insurance Companies	Corporate Issuers	Asset-Backed Securities	Government Securities	Total Ratings
A.M. Best	N/R	4,610	1,787	55	N/R	6,452
DBRS	16,222	148	3,736	10,054	15,952	46,112
EJR	109	48	1,004	N/R	N/R	1,161
Fitch	51,718	3,786	15,367	56,311	223,188	350,370
HR Ratings	N/R	N/R	N/R	N/R	184	184
JCR	159	27	472	N/R	56	714
KBRA	15,646	50	1,000	352	1,945	18,993
Moody's	50,795	3,639	32,510	82,357	754,062	923,363
Morningstar	N/R	N/R	N/R	13,935	N/R	13,935
S&P	60,300	7,600	47,400	97,500	930,500	1,143,300
<b>Total</b>	<b>194,949</b>	<b>19,908</b>	<b>103,276</b>	<b>260,564</b>	<b>1,925,887</b>	<b>2,504,584</b>

\*N/R indicates that the NRSRO is not registered for the rating category indicated.

\* NRSRO: Nationally recognized statistical ratings organization

Source: Annual certification submissions by NRSROs to SEC USA – Dec. 31, 2012

## Overview of Ratings World

**STANDARD  
& POOR'S**

**MOODY'S**

**FitchRatings**



- Their performance reveals that the Big 3 are mandated to cater for US based financial institutions, \$ based bonds and large corporations;
- They have no or negligible contribution in the development of Domestic Economies outside the US

- The Big 3 Global Rating Agencies, Standard & Poor's, Moody's and Fitch have a history of at least 100 years;
- As of today, the 'Big 3' dominate the industry in terms of their share in ratings outstanding and fee income.

Ratings/Development	Outside US	Within US
Local Debt Market	✗	✓
Bond Market	✗	✓
Med./Small FIs	✗	✓
Municipal Bonds	✗	✓
SMEs	✗	
Islamic FIs*	✗	✗
Takaful Firms*	✗	✗
* Methodologies are extension of conventional ratings		

The Big 3 Global  
Credit Rating  
Agencies

**Who will develop Debt Markets in Emerging & OIC Countries?**

It has taken 100 years or more for US debt markets to develop.....

**Will we wait that long?**

Filling the Gap?



## IIRA – Primary Objectives

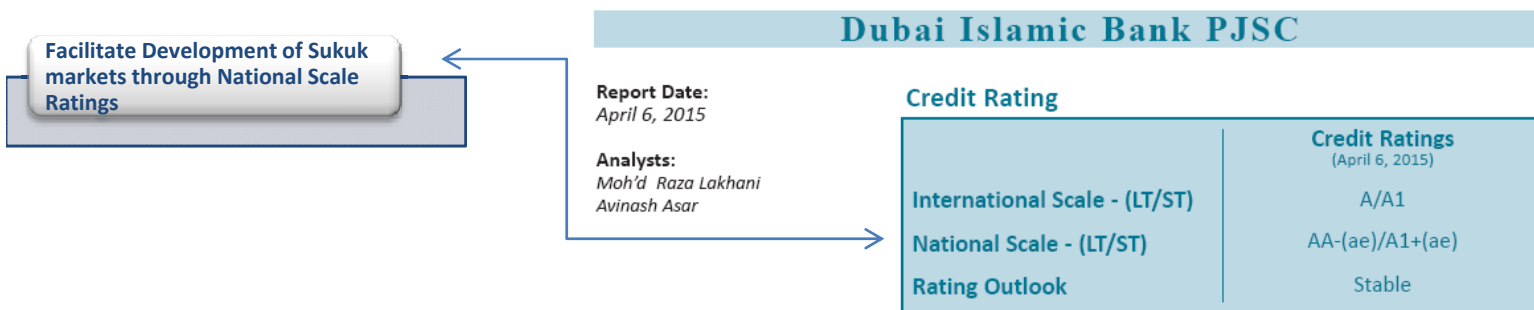
Facilitate Development of Sukuk markets through National Scale Ratings

Facilitating Cross-border Transactions

Customized approach to rating Islamic Financial Institutions

**Islamic  
International  
Rating Agency –  
Objectives**

- How are Fiduciary Ratings differentiated from conventional ratings?
  - Two-dimensional assessment – recognizes the mutually dependent nature of credit & Fiduciary risks in an IFI
  - Poorly governed institutions – may be more susceptible to the risk of failure
    - credit event could be triggered by lets say perception regarding Shari'a compliance
  - Presence of sound governance structure - does not guarantee strong financial performance
    - Fiduciary Scores may be faced with downward pressure on account of credit-related developments



Bank of Khartoum			
<b>Report Date:</b> March 05, 2015			
<b>Analysts:</b> Shahbaz Nadir Avinash Asar			
<b>Credit Rating</b>			
	<b>Latest Ratings</b> (March 5, 2015)	<b>Previous Ratings</b> (April 28, 2014)	
<b>National Scale</b> (LT/ST)	AA-(sd)/A1(sd)	AA-(sd)/A1(sd)	
<b>Rating Outlook</b>	Stable	Stable	
<b>Fiduciary Score</b>			
	<b>Latest</b>	<b>Previous</b>	
<b>Total Score</b>	<b>71-75</b>	<b>71-75</b>	
Asset Manager Quality	66-70	66-70	
Corporate Governance	66-70	66-70	
Shari'a Governance	76-80	76-80	
Fiduciary Score 71-75 indicates that rights of various stakeholders are adequately protected. Certain weaknesses have been identified in a few governance related areas.			

IIRA's Fiduciary Ratings appealing to varying needs of investors, with greater information for investors regarding institutional strength, in addition to governance capabilities, while giving specific coverage to Shari'a governance

## FIDUCIARY RATINGS

- Underdeveloped but growing Sukuk market
- Ratings culture largely non-existent
  - IIRA gradually deepening its presence in OIC countries
- Shari'a Governance – important element in ratings
  - Transparency and quality of disclosures – a key element of governance and Islamic fiqh - independent opinion for the same will always be required
  - Lack of transparency – Gharar – can render an Islamic financial transaction fasid (void)
  - Fundamental responsibility of 'Mudarib' and 'Ameen' to conduct business of an IFI in an honest, diligent and transparent manner

- IIRA's approach to rating sovereigns
  - Focus on wealth creation
  - Payment of debt from debt
  - Ability to print money
  - IIRA maintains two cooperative unsolicited sovereign ratings
  - Coverage to be extended to several others in the near future
- IIRA is in distinct view on GCC's credit profile vis-à-vis other publicly available opinions

Approach to  
Sovereign  
Ratings

**THANK  
YOU**