

Expected Default Frequency (EDF™): Forward-looking, point-in-time default probability available daily for corporate (EDF = 0.01% to 50%) and financial (EDF = 0.01% to 35%) entities globally with publicly traded equity. Term structure available from 1 to 10 years.

EDF Model: Black-Scholes-Merton structural model with clear causal interpretation. Backed by over 11,700 defaults globally. Like fundamental credit analysis, the EDF model quantifies business and financial risk, but unlike fundamental credit analysis, it calculates the value of firms' assets and the volatility of the assets in part from equity prices. The three main drivers of the EDF model are: Market Value of Assets, Default Point, and Asset Volatility.

Market Value of Assets (Asset Value): One of the three drivers of the EDF model. The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure.

Default Point: One of the three drivers of the EDF model. The level of the market value of a company's assets, below which the firm would

fail to make scheduled debt payments. If the market value of assets fall below this value, it is assumed that the firm will be unable to sell assets or raise additional capital to pay its debts. In general, the default point is close to a value equal to short-term liabilities plus half of long-term liabilities.

Asset Volatility: One of the three drivers of the EDF model. Known as a company's business risk. Technically, it is the standard deviation of the annual change in the market value of the assets. The higher the asset volatility, the less certain investors are about the market value of the firm, and the more likely the firm's value will fall below its default point.

Market Leverage: A ratio indicating how much of the market value of the firm's assets is financed by debt. It represents a company's financial risk and is calculated by dividing the default point by the market value of assets. If everything else is equal, the higher the firm's market leverage, the higher the firm's EDF credit measure will be.

Market Sharpe Ratio: Also known as the market risk premium.

The market's excess return per unit of credit risk. This value is estimated daily using a cross-sectional sample of investment grade USD bonds. The market Sharpe ratio typically has a minor, but non-zero, influence on changes in credit spread.

Annualized EDF: An average probability of default per year derived from the cumulative EDF.

Cumulative EDF: Probability of default from now until the specified horizon. For example, the 2-year cumulative EDF is the likelihood a firm will default any time during the following two year period.

Forward EDF: Probability of default from N-1 to year N, and is derived from the cumulative EDF. For example, the 2-year forward EDF is the probability of default between year 1 and year 2, conditional on the firm surviving to the end of year 1.

EDF-Implied Rating: An EDF mapped to the Moody's SRA rating or a client's internal rating scale.

Moody's SRA Rating: The Senior Rating Algorithm (SRA) is the senior unsecured debt rating, or if there is none, a rating reference implied on the basis of rated subordinated or secured debt.

CDS-Implied EDF: Default probabilities derived from credit default swap (CDS) spreads. Through this model, CreditEdge is able to extend coverage to entities without traded equity, including sovereigns, private firms, and/or subsidiaries of public firms, as well as select state-owned and supranational entities, and US municipalities.

Fair Value CDS Spreads: Fair Value CDS spreads are modeled CDS spreads derived from CDS-Implied EDF measures that can be directly compared with observed CDS spreads.

EDF-Implied CDS Spread: The spread on a 5-year CDS for a given entity. The 5-year EDF-Implied CDS is the difference in basis points between the return on a CDS and the LIBOR rate.

Through-the-Cycle (TTC) EDF: One-year probabilities of default that primarily reflect a firm's long run credit risk. TTC EDF measures are derived from EDF measures through a filtering technique that separates the firm-specific trend and credit-cycle components of EDF measures.

Stressed EDF: One-year default probability forecasts for public companies conditional on hypothetical economic scenarios.

Fair Value Bond Spread: Modeled bond spreads derived from EDF measures. FVS metrics provide an alternative assessment of bond valuation that is directly comparable with option-adjusted spreads. Fair Value Spreads are calculated as (Probability of Default x Loss Given Default) + Market Sharpe Ratio +/- issuer size factor.

Sector LGD: Inputs used in the calculation of FVS and FVCDS. Note that the sector LGD measures are different for FVS and FVCDS. This is a sector- and seniority-level metric.

Alpha Factor: Bond-level Alpha Factors provide a relative value framework for bond investors. Alpha Factors are calculated as Option Adjusted Spread / Fair Value Spread.

CreditEdge Early Warning Toolkit: A research methodology that provides clients with a practical approach for using EDF measures to effectively monitor and hedge portfolios. The framework examines default risk among five measures: EDF level vs EDF trigger level, EDF change, relative EDF level, relative EDF change, and EDF term structure.

EDF Trigger Level: The threshold level by which a company is at greater risk of default based on historical default activity within that company's country and Moody's Analytics industry.

Deterioration Probability: A daily metric ranging from 1% to 70% that estimates the probability of downgrade for rated firms in the next 12 months.

Quick Tips for Using CreditEdge

Create Entity & Bond Portfolios → Portfolios Tab

Manage your portfolios right in CreditEdge. Import an Excel file containing one of the accepted identifiers for entities (i.e. PID, CUSIP, LEI, FIGI, Ticker, etc.) and bonds (i.e. ISIN, CUSIP, Company Ticker) and view aggregate portfolio stats. Include exposure amounts for entities. Option to share portfolios with your team.

EDF vs Drivers → Chart on the Company Page

View the EDF compared to Market Value of Assets, Asset Volatility, and Default Point. See when quarterly financial statements were released. Ability to change lookback period, download data and chart image.

EDF Relative Contribution Tool → Chart and Table on the Company Page

See how each of the EDF model drivers impact a change in the EDF over a given period. Access the bar chart displaying the main EDF driver weights, plus the table view for a more granular analysis that can be switched into a waterfall chart.

Entity News → Bottom section of the Company Page

Uncover relevant news based on

categories that could affect a firm's credit quality including Corporate Events, Corporate Structure, Financials, Legal, M&A and Deals, and Economy, as well as select the desired lookback period.

Peer Analysis → Peer Analysis Tab

Gain insight into whether a firm's credit risk is driven by idiosyncratic or systemic risks. Analyze a company's EDF vs industry group percentiles. Change industry peer groups, or benchmark a company versus one of your portfolios. View the EDF and EDF model driver percentiles. Ability to change look back period, download data and chart image.

Early Warning Toolkit Web Dashboard → Public and Private Monitoring in the Analytics Tab
Upload and monitor public and private portfolios in CreditEdge. Filter by Early Warning Toolkit metrics with the ability to save your work. Seamless access between CreditEdge and RiskCalc.

EDF vs EDF Trigger Level → Peer Analysis Tab, Report Builder, Chart Builder

Monitor EDF momentum compared to its EDF trigger level to determine if a company is at greater risk of default.

Scenario Analysis → What-If Tab and Portfolio Tab

Change EDF model drivers and market data to see how a company or portfolio's credit risk would change under different situations. Compare current and new EDF term structures.

Bond Information → Bonds Tab

See each company's bonds plus terms and conditions, FVS, Alpha Factor, iLGD, issuer Deterioration Probability, and more. Click on each ISIN or CUSIP for individual bond-level analysis.

Screener Tool → Analytics Tab

Screen and benchmark at the company, group and bond level. Choose from 50+ criteria to find investment opportunities or build portfolios. Ability to save work, download data and chart image.

Financial Statement Information → Financials Tab

Quarterly and annual debt and equity, profitability, key financial ratios, income statement information, and original and adjusted balance sheet stats.

PDF Reports → Company Page, Individual Bond Page, Portfolios Tab

Create "tear sheets" containing key

CreditEdge measures for quick analysis of a company, bond, or portfolio. Ability to customize company and portfolio PDF Reports.

Movers & Alerts → Alerts Tab

Find "movers" by EDF for entities or Alpha Factor for bonds. See the top improving and deteriorating names in entity or bond portfolios. Customizable email alerts notify you of credit risk changes for entities and portfolios.

EDF Recalculations → Alerts Tab

View all companies whose EDF has been recalculated including recalculation reason, recalculation start and end date, release date, and chart view of the EDF change.

CreditEdge Product & Research Information → Help Page

Utilize additional resources to ensure the best possible user experience. Access methodology and validation documents, applied research, at-a-glance papers, user guides, and EDF case studies all in one place.

Risk
Technology Awards
2019 Winner

CreditEdge named Best Credit Data Provider of the Year and Best Wholesale Credit Modelling Software of the Year

More questions or need training?
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