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Addendum 1 to the CRI Technical Report, (Version: 2011, Update 1)

Default definition

This write-up serves as an update to the Technical Report (Version: 2011, Update 1) and documents the changes to the default definition that have been implemented as of the December 2011 calibration.

The Credit Research Initiative database contains credit events of over 4,000 firms from 1990 to the present. The default events come from numerous sources, including Bloomberg, Compustat, CRSP, Moody's reports, TEJ, exchange web sites and news sources. As indicated in the Technical Report, an important challenge in identifying default events is linked to the fact that definitions of credit default can vary across jurisdictions and between data sources. For the operational implementation of the CRI system, it is necessary to apply the default definition consistently across the different economies that are covered by the CRI. In our continuous efforts to normalize to a common set of definitions, the following definition is used as of the December 2011 calibration:

The default events that are recognized by the CRI can be classified under one of the following events:

1. Bankruptcy filing, receivership, administration, liquidation or any other legal impasse to the timely settlement of interest and/or principal payments;
2. A missed or delayed payment of interest and/or principal, excluding delayed payments made within a grace period;
3. Debt restructuring/distressed exchange, in which debt holders are offered a new security or package of securities that result in a diminished financial obligation (e.g. a conversion of debt to equity, debt with lower coupon or par amount, debt with lower seniority, debt with longer maturity).

Delisting due to other reasons such as failure to meet listing requirements, inactive stock prices or M&A are counted as "other exits" and are not considered as default. However, firms that are delisted from an exchange and then experience a default event within 365 calendar days of the delisting will have an exit event reclassified as credit default. Technical defaults such as covenant violations are not included in our definition of default.

In addition to the aforementioned events, there are still cases that require special attention and will be assessed on a case-by-case basis, e.g., subsidiary default. As a general rule, the CRI does not consider related party-default (e.g., subsidiary bankruptcy) as a default event. However, when a non-operating holding parent company relies heavily on its subsidiary, bankruptcy by the subsidiary will cause a considerable economic impact on the parent company. Such cases will be reviewed and final classifications made.

The most substantial changes to the default definition include exclusion of: covenant breaches and some default corporate actions that are specific to Taiwan (Bailout, Bounced Checks, Auditor's Opinion, Rumours of Financial Distress etc.).

The table below gives an updated overview of the exit events that are being retained as default.

Exits classified as default:

Default – Action Type	Subcategory
Bankruptcy filing	Administration, Arrangement, Canadian CCAA, Chapter7, Chapter11, Chapter15, Conservatorship, Insolvency, Japanese CRL, Judicial Management, Liquidation, Pre-Negotiated Chapter 11, Protection, Receivership, Rehabilitation, Rehabilitation (Thailand 1997), Reorganization, Restructuring, Section 304, Supreme court declaration, Winding Up, Work Out, Other, Unknown
Delisting	Bankruptcy
Default Corporate Action	Bankruptcy, Coupon & Principal Payment, Coupon Payment Only, Debt Restructuring, Interest Payment, Loan Payment, Principal Payment, ADR (Japan only), Declared Sick (India only), Unknown