



The Banque de France RATING

Reference guide

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1 The Banque de France rating: an assessment of companies' financial situation

1.1 Why does the Banque de France rate companies?

The Banque de France rating is an assessment of a company's ability to meet its financial commitments over a one to three-year horizon.

The Banque de France rating is used

- for monetary policy purposes, as a tool for selecting the claims that banks may use for their refinancing with the Eurosystem. Indeed, banks obtain Eurosystem refinancing by pledging as collateral any claims that they hold on companies with the highest credit ratings;
- for corporate risk analysis, to help credit institutions assess the soundness of their assets;
- for calculating credit institutions' capital requirements with respect to solvency rules.

With these ratings, the Banque de France

- provides credit institutions with information on the quality of commitments that they are about to make or have already made;
- helps company managers identify the factors that will influence their financial situation, in particular as regards "credit risk";
- facilitates the dialogue between banks and companies by providing a common and widely-acknowledged reference.

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1.2 Which companies are rated?

All companies with a registered office in France may be rated on the basis of information contained in the Fiben company database.

The information includes: legal information, court rulings, trade bill payment incidents, bank loans, partners and managers, etc.

In principle, accounting records are required especially for companies with a turnover above EUR 0.75 million. The credit rating is then largely based on the financial situation of companies concerned.

Certain companies are not awarded a rating for the following reasons:

- they are registered outside France;
- or, given their field of activity: credit institutions, investment firms, insurance companies, mutual funds, real estate investment corporations, etc.

1.3 Who are the ratings intended for?

The company concerned

Ratings are systematically communicated, free of charge, to the company managers: legal representatives of a legal entity and / or sole traders may obtain this information from the regional offices of the Banque de France and ask for a personal interview in order to obtain explanations on the rating awarded.

Subscriptions to Fiben

The organisations entitled to subscribe to Fiben and the conditions of subscription are defined in Article L144-1 of the Monetary and Financial Code.

Subscribers may not under any circumstances disseminate the information contained in this database outside of their institution.

www.i-fiben.fr

1.4 What type of information is collected?

The data collected and analysed by the Banque de France are used to conduct a comprehensive assessment of a company's credit risk with a view to awarding it a rating.

These data are collected from the companies themselves, registries of commercial courts, Insee, surety and credit insurance firms and credit institutions. These are:

- **Descriptive data**
 - Company name, business code, address of registered office, legal form, capital, creation date, etc.
- **Accounting and financial data**
 - The company's accounting records, if its turnover exceeds a certain level or if the amount of its bank loans is above a certain threshold.
 - The consolidated accounting records if the company belongs to a group.
- **Data relating to trade bill payment incidents and to loans reported by credit institutions**
- **Legal information**
 - Judgments handed down by commercial or civil courts ruling on commercial cases.
- **Data relating to companies' economic and financial environment**
 - Managers, partners, companies owned, etc.

- **Qualitative data**

- Qualitative data are collected during interviews with company managers. These interviews help to carry out a more precise financial analysis by collecting additional information.

Corporate Social Responsibility

This qualitative assessment takes into account Corporate Social Responsibility criteria (CSR) which have an impact on long-term performances.

All three aspects of CSR are examined:

- social responsibility: work organisation, working conditions, training, employee profit-sharing;
- environmental responsibility: environmental impact reduction, efficient use of resources, waste reduction and recycling;
- civic responsibility: commitment to improving well-being in society via commercial relationships (choice of clients and suppliers, respect for payment deadlines) and community involvement (collaboration with associations).

1.5 How does the Banque de France award its rating?

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It is awarded by analysts under the responsibility of the local director of the Banque de France.

It enables companies to find out about their level of activity, the robustness of their financial position, the quality of their environment and the regularity of payments.

The rating is determined on the basis of an expert assessment and not on the basis of purely statistical tools: it takes into account any qualitative elements and forecasts that the company manager may have communicated to the analyst.

The rating process offers the possibility of holding an interview with the company manager to bolster the analysis and explain the process and the rating decision.

The rating is updated each time any major new elements are brought to the attention of analysts.

The data collected are analysed and reflected in a succinct overall assessment in the form of a turnover rating and a credit rating.

2 The rating: an overall assessment

2.1 An example

The Banque de France rating is composed of two elements: a turnover rating and a credit rating.

Example: A1+, E8, D5-, H4, GP, X0.

2.2 The turnover rating indicates a level of turnover

The turnover rating is expressed by a letter that represents the company's level of turnover. The letter « A » represents the highest level of turnover.

Rating	Turnover (in millions of euro)
A	≥ 750
B	≥ 150 and < 750
C	≥ 50 and < 150
D	≥ 30 and < 50
E	≥ 15 and < 30
F	≥ 7,5 and < 15
G	≥ 1,5 and < 7,5
H	≥ 0,75 and < 1,5
J	≥ 0,50 and < 0,75
K	≥ 0,25 and < 0,50
L	≥ 0,10 and < 0,25
M	< 0,10
N	Non-significant
X	Unknown or insufficiently recent turnover (year-end more than 23 months ago)

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Special cases for the attribution of the turnover rating

Special cases	Thresholds based on
Commission agents, brokers and intermediaries	Turnover + amount of transactions giving rise to a commission
Companies belonging to sectors with a long business cycle (e.g. Construction and civil engineering)	Turnover + production taken into inventory
Holding companies that do not engage in industrial or commercial activities	<ul style="list-style-type: none"> • Consolidated turnover of the group • N rating, in the absence of consolidated statements

2.3 The credit rating assesses a company's ability to meet its financial commitments over a 3-year horizon

Possible credit ratings: 1+, 1, 1-, 2+, 2, 2-, 3+, 3, 3-, 4+, 4, 4-, 5+, 5, 5-, 6+, 6, 6-, 7, 8, P and 0

For each value, one or more Rating criteria may apply.

 Excellent ++	The company displays excellent earning power, financial autonomy, liquidity and has a sound financial structure. The ability of the company to meet its financial commitments is considered excellent ++. The financial situation is highly satisfactory. Furthermore, the company has an excellent ability to withstand unfavourable changes in its environment or the occurrence of particular events.
 Excellent +	A credit rating of 1 is assigned when one or more of the financial conditions required for awarding a credit rating of 1+ are not met, although without warranting the assignment of credit rating 1-. The ability of the company to meet its financial commitments is excellent +. The company has a very high ability to withstand unfavourable changes in its environment or the occurrence of particular events.
 Excellent	The company has in principle excellent earning power and liquidity and excellent financial autonomy and financial structure. The ability of the company to meet its financial commitments is considered excellent. The company isn't threatened by unfavourable changes in its environment or the occurrence of particular events.
 Very satisfactory ++	The financial situation, assessed on the basis of recent accounting records, is deemed very satisfactory. The entity displays a sufficient ability to meet its financial commitments and is deemed to be exposed to a moderate credit risk. However, unfavorable economic circumstances could affect the financial situation of the entity. No potential risks are anticipated in the company's liquidity.
 Very satisfactory +	While the financial situation, assessed on the basis of recent accounting records, is deemed very satisfactory and displays a sufficient ability to meet its financial commitments it is likely that unfavorable economic circumstances affect its ability to meet its financial commitments. No potential risks are anticipated in the company's liquidity.
 Very satisfactory	The financial situation of the company is deemed very satisfactory and is still able to meet its financial commitments but the assessment of the accounting records does not display the robust characteristics that would allow the assignment of a more favourable rating. It is likely that unfavorable economic circumstances reduce its ability to meet its financial commitments. No potential risks are anticipated in the company's liquidity.

<p>Strong ++</p>	<p>3+</p>	<p>The financial situation of the company is strong ++ but could display some factors of uncertainty, without there apparently being any financial imbalances, and notably when weaknesses relating to earning power, financial autonomy, liquidity or solvency are observed. The company's ability to meet its financial commitments is still deemed to be strong ++, taking account in particular of these more pronounced elements of uncertainty.</p>
<p>Strong +</p>	<p>3</p>	<p>The financial situation of the company is strong + but may display some factors of uncertainty, without there apparently being any financial imbalances, and notably when weaknesses relating to earning power, financial autonomy, liquidity or solvency are observed. The company is deemed capable to face its financial commitments but its financial situation displays some factors of uncertainty deemed to expose it to a higher credit risk than for a 3+ rating.</p>
<p>Strong</p>	<p>3-</p>	<p>The financial situation of the company is strong but displays some factors of uncertainty, without there apparently being any financial imbalances, and notably when weaknesses relating to earning power, financial autonomy, liquidity or solvency are observed. The company is deemed capable to face its financial commitments but its financial situation displays some factors of uncertainty deemed to expose it to a higher credit risk than for a 3 rating.</p>
<p>Good +</p>	<p>4+</p>	<p>The financial situation of the company is good but displays some factors of uncertainty and some quite limited financial imbalances, notably when weaknesses relating to earning power, financial autonomy, liquidity or solvency are observed. While the entity meets its financial commitments, the company is deemed to be exposed to a higher credit risk than for 3- rating.</p>
<p>Good</p>	<p>4</p>	<p>The entity still meets its financial commitments and faces limited financial imbalances, notably in situations where self-financing capacity is positive and when the company does not display very insufficient earning power at the same time as a very high level of debt. Furthermore, in principle, if the company is a new established entity or if it has significant financial linkages with a more fragile company, a rating 4 is assigned.</p>
<p>Intermediary +, with moderate elements of uncertainty or fragility</p>	<p>4-</p>	<p>The company still meets its financial commitments but its financial situation shows moderate elements of financial imbalances and fragility, e.g. equity less than half of the equity capital mitigated by other positive information (including qualitative).</p>
<p>Intermediary -, with elements of uncertainty or fragility which must be tracked</p>	<p>5+</p>	<p>The company still meets its financial commitments but its financial situation shows persistent elements of fragility (e.g. company subject to legal preventive measures) or financial imbalances, which could impact its ability to meet its financial commitments. The ability of the company to meet its financial commitments is deemed to be intermediary.</p>
<p>Fragile</p>	<p>5</p>	<p>The company is deemed financially fragile and faces difficulties to meet its financial commitments. The financial situation displays fragility (e.g. company subject to legal preventive measures) or imbalances relating, for example, to earning power or the financial structure, in particular when self-financing capacity is negative or, together with this, earning power is insufficient or negative and the financial debt rate or liquidity risk are (is) very high.</p>

<p>5-</p> <p>Quite weak</p>	<p>The financial situation displays more pronounced imbalances than for a rating 5. The ability of the company to meet its financial commitments is quite weak. Equity has been less than half of the equity capital for more than 36 months.</p>
<p>6+</p> <p>Very weak</p>	<p>The financial situation of the company is considered weak, it displays deep imbalances and a high credit risk and/or has significant financial linkages with a company facing payments incidents.</p>
<p>6</p> <p>Faces major uncertainties</p>	<p>Very weak ability to meet its financial commitments. The company's financial position displays serious financial imbalances (e.g. earning power has been strongly negative over three consecutive financial years; self-financing capacity has been strongly negative, given the level of business, for three consecutive financial years; financial charges have accounted for a very high percentage of EBITDA for three financial years; equity has been less than half of the equity capital for less than 36 months; liquidity risk attached with unlikelihood to pay).</p>
<p>6-</p> <p>Vulnerable</p>	<p>Extremely weak ability to meet its financial commitments. The company faces major uncertainties (e.g. is subject to a recovery plan or has significant financial linkages with a bankrupted company) and imbalances (e.g. earning power has been strongly negative over three consecutive financial years; self-financing capacity has been strongly negative, given the level of business, for three consecutive financial years; financial charges have accounted for a very high percentage of EBITDA for three financial years; equity is negative or drastically reduced by losses (especially if it has dropped to less than half the equity capital); very high liquidity risk leading to inability to pay).</p>
<p>7</p> <p>Highly vulnerable</p>	<p>Credit rating 7 is automatically assigned to non-significant companies for which at least one payment incident arising from a unit amount equal to or more than €1,524 on the grounds of «inability to pay» is stated during the previous 6 months. BdF does not investigate a company's accounting records on the sole grounds that declarations of payment incidents have been recorded in its name, if this company's turnover before tax is below the threshold used for collecting the aforementioned records. In the case of companies rated without an analysis of accounting records, credit rating 7 necessarily replaces credit ratings 0 and 3+ to 6-. Credit rating is assigned to a company «with balance sheet» for which at least one payment incident arising from a unit amount equal to or more than €1,524 and for which the ratio payment incident/purchases <2%. Credit rating 7 is not automatic: its assignment is subject to an analyst's decision. An in-depth analysis of a company's situation should only be conducted selectively. It will in particular need to be carried out when the active credit rating is favourable (from 1+ to 2-) or when the outstanding amount appears to be low in comparison with the size of the company.</p>
<p>8</p> <p>Extremely vulnerable</p>	<p>In the absence of a court ruling resulting in a P rating, credit rating 8 is assigned to companies whose payments are irregular and for which the ratio payment incidents/purchases is above 2%. The company's ability to meet its financial commitments is considered to be at risk or compromised and stated payment incidents (more pronounced than for the 7 rating) indicate a cash burden.</p>



Bankruptcy

The company is the subject of insolvency proceedings (recovery or judicial liquidation proceedings).



No unfavourable information gathered

This rating is awarded to companies for which the Banque de France has not received any unfavourable information (no trade bill payment incidents, no court rulings or judicial information).

Rating criteria

- Company recorded in the Fiben database and that does not warrant the gathering of accounting records.
- Company for which the Banque de France:
 - either does not possess any recent accounting records;
 - or possesses documentation that cannot be used due to, for example, the specific nature of the company's activity: certain holding companies, companies set up as the legal vehicle for property development programmes, etc.



The company's rating is not available

This will be used for companies whose rating has not been revised in the 15 months since the last expert assessment. The code ND will only be attributed in place of a rating if the company's last credit rating meant that it was eligible for refinancing (1+ to 4+).

Special cases for the attribution of the credit rating

Special cases	Credit rating
Groups	Holding companies, consolidating entities, are given a credit rating known as a group rating, following an assessment of the group's financial position based on the consolidated (or combined) accounts and any other information available on the group.
Non-resident entities	0, 5, 6- ou P
Public administrations, general government, credit institutions	0
State-owned industrial and commercial companies (Établissement Public industriel ou Commercial - EPIC)	0, 1+, 1, 1- (provided their payments are regular)

Financial criteria for awarding credit ratings

Criteria	Analysis
Earning power	Study of the company's performance (net income, gross operating surplus, etc.).
Financial autonomy	Assessment of the company's ability to generate funds to repay its debts (self financing capacity, stable financial debts, interest and related expenses, etc.).
Solvency	Assessment of the company's resilience to economic shocks (net equity, financial indebtedness, balance sheet total, etc.).
Liquidity	Assessment of the company's cash position (total net working capital, assets with maturities of less than one year, liabilities with maturities of less than one year, etc.), its ability to generate sufficient liquidity either through its business (cash flows, etc.), or through the adoption of a flexible stance (sale of assets, ability to take out bank loans or receive funds from partners, etc.) and checking of the adequacy between the company's currently or potentially available resources and instalments due.

To rate companies, the Banque de France takes into account qualitative information collected from company managers.

3 Appendix: legal framework

The Banque de France is an External Credit Assessment Institution (ECAI)

The Banque de France has been recognised as an external credit assessment institution (ECAI) for its company rating activity. This enables credit institutions to rely on this rating to calculate their regulatory capital requirements.

This recognition means that the Banque de France rating system meets the international requirements of reliable credit risk assessment systems.

Credit assessments by ECAIs must meet the following requirements

- objectivity of the rating method and its results
- independence of the rating production process
- regular review of ratings
- transparency and publication of the methodology
- acceptance by the market, i.e. the credit assessments of ECAIs should be perceived as credible and reliable by the users.

The recognition of the Banque de France as an ECAI is subject to its compliance with a set of performance criteria, in the form of an annual verification of target default rates. These performances are published in full transparency, notably on the Fiben website www.fiben.fr

The Banque de France is an In-house Credit Assessment System (ICAS)

Within the Eurosystem, the Banque de France has been recognized as an ICAS – In-house Credit Assessment System – under the General Documentation governing the Eurosystem’s monetary policy operations.

Ratings are also used for refinancing bank loans in the Eurosystem Credit Assessment Framework (ECAAF).

The national context

“The Banque de France is authorised to have sent to it by credit institutions (...) and industrial and commercial firms any documents and information necessary for carrying out its basic tasks” (Article 141.6 of the Monetary and Financial Code).

The ethical framework

The rating activity is conducted by Banque de France analysts under a code of conduct that draws on the best international practices. The *code of conduct* of the Banque de France rating activity is based on the standards set by the securities regulators within IOSCO (International Organization of Securities Commissions). This code is available at www.fiben.fr

Transparency, confidentiality, ethics

- 1 The Banque de France shall, automatically and free of charge, communicate its rating to every company.
- 2 The legal representative of the company may receive explanations on the rating and management indicator during a personal interview.
- 3 The legal representative may access this information at www.i-fiben.fr once he has initially justified his status to a Banque de France unit.
- 4 All analysts are made aware of the application of the code of conduct for Banque de France company rating activities. They receive a copy of this document when appointed to the position of analyst. This code guarantees the confidentiality of information and its application is monitored by the internal audit of the Banque de France.
- 5 The information is only available to Fiben members: credit institutions, surety and credit insurance companies, the Autorité de contrôle prudentiel et de résolution (ACPR) and public administrations with economic and financial purposes, according to their profile.
- 6 Fiben members may under no circumstances disseminate this information outside their establishment. The information is covered by professional secrecy.
- 7 Every year, the Banque de France publishes on Internet the performance assessment of its rating system. These performances meet specific international standards.

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Services and advice to Fiben members

In every Banque de France unit, a Fiben contact person is available to present the range of Fiben data and services: the database, its options, Fiben sur mesure et Suividirect-Fiben, etc.

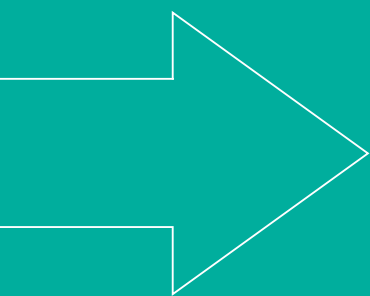
The rating is reviewed at least once a year after receipt of the annual accounts and whenever a significant new element concerning the company is brought to the attention of the Banque de France. A specific module in Fiben provides a detailed explanation of the review process.

Useful websites check for regular updates

www.fiben.fr News, rating and its explanation, the code of conduct of the rating activity, management indicators, user guide.

www.entreprises.banque-france.fr/cotation

www.iedom.fr For the area covered by the Institut d'émission des départements d'outre-mer (IEDOM – the French overseas departments note-issuing bank).



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