



NEWS RELEASE

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R&I Publishes Default Rates Including the BB and Lower Rating Categories: An Initiative to Promote the BBB Category Bond Market and Create a High Yield Bond Market

Rating and Investment Information, Inc. (R&I) has issued a report entitled "Default Rates for Low or Medium-rated Japanese Corporations: Calculating an Objective Gap between the BBB and BB Rating Categories (tentative, Japanese text only)".

Faced with a shortage of debt instruments to invest in as a result of global monetary easing and the Bank of Japan's asset purchase program, some institutional investors are now keen on expanding their scope of investment into less creditworthy bonds rated in the BBB category. From a more structural perspective, debt instruments that are generally regarded as having creditworthiness in the BBB rating category are expected to increase. This may be brought about by growth in project finance, which should be driven by infrastructure investment related to renewable energy projects and concessions, as well as in capital raising by Asian companies in the Japanese markets.

In Japan's corporate bond market, most bonds have historically been highly rated. Investment in low or medium-rated bonds is not very common, and prices of these bonds tend to swing widely. This is primarily because it is difficult for investors to envisage returns commensurate with credit risk through investment in BBB category bonds, as the market for bonds in the rating category lower than BBB (i.e., the BB rating category), or the so-called high yield bond market, is absent.

R&I thus calculated default rates that even cover the BB and lower rating categories by adding ratings estimated using "RADAR", a rating estimation model developed by R&I's group company Financial Technology Research Institute, Inc., to conventional rating performance data centered on the BBB and higher rating categories. This is the first successful attempt to deliver objective information on a gap in default rates between the BBB and BB rating categories for Japan's corporate bond market.

The purpose of providing such information is to promote the BBB category bond market and contribute to the creation of a high yield bond market, a medium to long-term imperative for the growth of Japan's capital market, by making available an objective gap between the BBB and BB rating categories and, in turn, returns commensurate with credit risk.

The above-mentioned report is provided at R&I's website (the English version will be available soon):

http://www.r-i.co.jp/eng/body/cfp/topics_others/2015/02/topics_others_20150220_248548390_01.pdf

If you would like to share your view on the content of the report or are interested in data contained in the report, please contact the following:

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