

The Link Between Credit Ratings, Corporate Governance & Social Responsibility



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*Roy P. Weinberger
President of Ecuability S.A. &
Principal of Credit Research, Advisory
& Consulting*

A Credit Rating

is an opinion about the ability and intention of a person or an institution to pay, based on its solvency and integrity.



Corporate Governance

considers both the structure and relationships that determine corporate direction and performance. Usually these focus on the relationships between the Board of Directors, management and shareholders

Corporate Social Responsibility

has been described as the management of an organization's positive impact on society and the environment through its operations, products or services and through its interaction with key stakeholders such as employees, customers, suppliers, investors and communities.

A Credit Rating

is an opinion about the ability and intention of a person or an institution to pay based on its solvency and integrity.

Corporate Governance

considers both the structure and relationships among the Board of Directors, management and shareholders that determine corporate direction and performance.

Additional relationships considered within the context of corporate governance include those with employees, customers, suppliers and creditors..

Corporate Social Responsibility

- Shares much with Corporate Governance, but has a broader context that includes relationships with the “community.”
 - May include concepts such as :
 - social investment;
 - environmental stewardship;
 - employee diversity and equal opportunity

Corporate Governance Issues Most Relevant to Ratings

- Transparency of ownership and related-party activities
- Quality and timeliness of information disclosure, including quality of independent accounting
- Structure, responsibilities and effectiveness of the Board of Directors

Quality of Information Disclosure

Key Accounting Concepts



- Consolidation basis
- Revenue and expense recognition
- Valuation of cash and investments
- Valuation and provisioning of receivables
 - Inventory valuation methods
- Fixed asset valuation and depreciation
 - Valuation of intangible assets
- Post-retirement benefit obligations
- Other liabilities and contingent obligations
 - Derivatives and hedges
 - Foreign currency exposures
 - Accounting for inflation 9

Corporate Rating Methodology

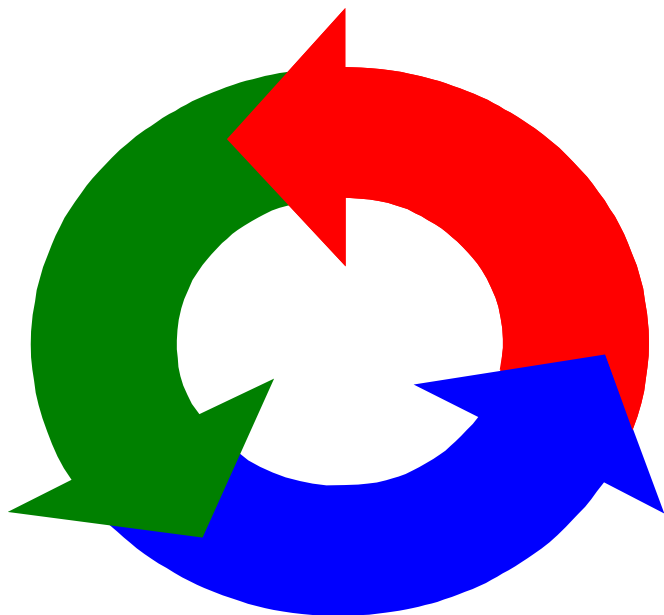
- Industry risk
- Competitive position/Operations analysis
- Profitability
- Cash flow generation/Debt service capacity
- Capitalization/Financial policies
- Liquidity/Financial flexibility
- Management/Ownership/Corporate Governance

Social Responsibility Issues Most Relevant to Ratings

- Corporate citizenship
- Relationships with employees
- Safety record

The Bottom Line

- Communicating fairly and building solid working relationships with all parties that have meaningful exposures to the company are at the heart of good corporate governance and social responsibility
- Rating agencies are one of those parties, and since good communication will almost always benefit a rating over time, it is simply good business.



ROY P. WEINBERGER

- **ECUABILITY S.A.**
- **BRC INVESTOR SERVICES S.A.**
- **CREDIT RESEARCH,
ADVISORY & CONSULTING**

**1004 MONARCH CIRCLE
STATESBORO, GEORGIA, USA 30458**

TEL/FAX: 912 764 5073

E-MAIL: rweinberger@frontiernet.net

www.frontiernet.net/~rweinberger/