



# The Banque de France rating

## Reference guide

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[www.iedom.fr](http://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), regarding which some of the information contained within this document can vary.

# 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 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.

## 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](http://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) and community involvement (collaboration with associations).

### **1.5 How does the Banque de France award its rating?**

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: A3++, E9, D5, H4+, GP, X0.

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### 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 20 months ago)

### 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"> <li>• Consolidated turnover of the group</li> <li>• N rating, in the absence of consolidated statements</li> </ul>

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

Possible credit ratings: **3++ 3+ 3 4+ 4 5+ 5 6 7 8 9 P and 0**

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

<b>3++</b>	<p><b>Rating criteria</b></p> <p><b>The company's ability to meet its financial commitments is deemed excellent</b></p> <ul style="list-style-type: none"> <li>The company's financial position, assessed particularly with regard to its earning power and solvency, is extremely satisfactory. In addition, the company is highly resilient to adverse developments in its environment and to specific events.</li> <li>In any case, requires an analysis by the Banque de France of accounting records.</li> </ul>
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<b>3+</b>	<p><b>Rating criteria</b></p> <p><b>The company's ability to meet its financial commitments is deemed very good</b></p> <ul style="list-style-type: none"> <li>The company's financial position is very satisfactory and its resilience to adverse developments in its environment and to specific events is very high, but not good enough to be awarded a 3++ rating.</li> <li>In any case, requires an analysis by the Banque de France of accounting records.</li> <li>May be awarded on the basis of close economic ties (related activities) with one or more companies with a lower rating.</li> </ul>
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<b>3</b>	<p><b>Rating criteria</b></p> <p><b>The company's ability to meet its commitments is deemed to be good</b></p> <ul style="list-style-type: none"> <li>The company's financial position is satisfactory and its resilience to adverse developments in its environment and to specific events is high, but not good enough to be awarded a 3+ rating.</li> <li>In any case, requires an analysis by the Banque de France of accounting records.</li> <li>May be awarded on the basis of close economic ties (related activities) with one or more companies with a lower rating.</li> <li>May be justified by the existence of close commercial ties (customers or suppliers) with one or more companies with a lower rating.</li> </ul>
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4+

The company's ability to meet its financial commitments is deemed to be **quite good** given the absence of major financial imbalances. There are however moderate factors of uncertainty or fragility.

### Rating criteria

- The company's financial position, assessed on the basis of recent accounting records, is quite satisfactory even though it does not display all the robustness characteristics that would permit a higher rating.
- The pronouncement of a business continuity plan, a safeguard procedure or the approval of a conciliation agreement does not allow the attribution of a higher rating, although the examination of the accounting records would normally have permitted it.
- In any case, requires an analysis by the Banque de France of accounting records.
- May be awarded on the basis of close economic ties (related activities) with one or more companies with a lower rating.
- May be justified by the existence of close commercial ties (customers or suppliers) with one or more companies with a lower rating.
- May also be awarded on the grounds of a more or less unfavourable economic environment (problems in terms of outlets, for example).

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The company's ability to meet its financial commitments is deemed to be **fair** given the absence of major financial imbalances. There are however moderate factors of uncertainty or fragility.

### Rating criteria

- Following analysis by the Banque de France of recent accounting records, the company's financial position displays weaknesses with regard to its earning power, financial autonomy, solvency or liquidity.
- May be awarded on the basis of close economic ties (related activities) with one or more companies with a lower rating.
- May be justified by the existence of close commercial ties (customers or suppliers) with one or more companies with a lower rating.
- May also be awarded on the grounds of a more or less unfavourable economic environment (problems in terms of outlets, for example).

5+

The company's ability to meet its financial commitments is deemed to be **fairly poor**.

### Rating criteria

- **Following analysis by the Banque de France of recent accounting records**
  - The company's financial position displays a few limited imbalances with respect, for example, to its earning power or its balance sheet structure.
  - The company holds capital in other companies whose economic importance is regarded as significant and which are rated 5+ or 5.
- **Following or without analysis of recent accounting records**
  - An interim administrator has been appointed.
  - Majority partners, legal entities, have received a credit rating of 5+ or 5.
- May be awarded on the basis of close economic ties (related activities) with one or more companies with a lower rating.
- May be justified by the existence of close commercial ties (customers or suppliers) with one or more companies with a lower rating.
- May also be awarded on the grounds of a more or less unfavourable economic environment (problems in terms of outlets, for example).

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The company's ability to meet its financial commitments is deemed to be **poor**.

### Rating criteria

- **Following analysis by the Banque de France of recent accounting records**
  - The company's financial position displays significant imbalances with respect, for example, to its earning power or financial structure.
  - The company controls the capital of other economically important companies that have been awarded a credit rating of 6, 7, 8, 9 or P justified by recovery proceedings.
- **Following or without analysis of recent accounting records**
  - Under certain conditions, the company has had a conciliation agreement approved.
  - The company benefits from a safeguard procedure.
  - A legal representative (natural person and/or sole trader) has been given a management indicator of 060.
  - Majority partners, legal entities, have received a credit rating of 6, 7, 8, 9 or P justified by recovery proceedings, or majority partners, natural persons, have been given a management indicator of 060.
- The company occupies the position of legal representative in two unrelated companies that have been put into judicial liquidation in the past five years.
- The company, a joint-stock company, has for over 36 months recorded a loss of over half its equity capital.
- May be awarded on the basis of close economic ties (related activities) with one or more companies with a lower rating.
- May be justified by the existence of close commercial ties (customers or suppliers) with one or more companies with a lower rating.
- May also be awarded on the grounds of a more or less unfavourable economic environment (problems in terms of outlets, for example).

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The company's ability to meet its financial commitments is deemed to be **very poor**.

### Rating criteria

- **Following analysis by the Banque de France of recent accounting records**
  - The company's financial position displays very significant imbalances liable to cast doubt on the company's future.
  - The company controls other companies regarded as economically important and that have been subject to a judicial liquidation order.
- **Following or without analysis of recent accounting records**
  - The company benefits from a recovery plan (continuation or disposal) in the framework of recovery proceedings.
  - The company, a joint-stock company, has for over 36 months recorded a loss of over half its equity capital.
- Majority partners, legal entities, have received a P rating following a judicial liquidation by court order.
- The company has just taken over a company rated P without any significant change to the management team.
- The company occupies the position of legal representative in more than two unrelated companies that have been put into judicial liquidation in the past five years.
- May be awarded on the basis of close economic ties (related activities) with one or more companies with a lower rating.
- May be justified by the existence of close commercial ties (customers or suppliers) with one or more companies with a lower rating.

<p><b>7</b></p> <p><b>At least one reported trade bill payment incident</b></p>	<p>The company's ability to meet its commitments is a specific cause for concern.</p> <p><b>Rating criteria</b></p> <ul style="list-style-type: none"> <li>At least one significant trade bill payment incident of at least EUR 1,524 has been reported over the past six months on the grounds of "inability to pay". The trade bill payment incident(s) recorded does(do) not warrant a credit rating of 8 or 9.</li> </ul>
<p><b>8</b></p> <p><b>At risk</b></p>	<p>The company's ability to meet its financial commitments is at risk given the trade bill payment incidents reported.</p> <p><b>Rating criteria</b></p> <ul style="list-style-type: none"> <li>Irregular payments.</li> </ul>
<p><b>9</b></p> <p><b>Compromised</b></p>	<p>The company's ability to meet its financial commitments is compromised as the reported trade bill payment incidents point to severe cash flow problems.</p> <p><b>Rating criteria</b></p> <ul style="list-style-type: none"> <li>Very irregular payments.</li> </ul>
<p><b>P</b></p> <p><b>Insolvency proceedings</b></p>	<p>The company is the subject of insolvency proceedings (recovery or judicial liquidation proceedings).</p> <p><b>Note</b></p> <ul style="list-style-type: none"> <li>The P rating is replaced by a rating of 6 once a recovery plan has been approved (continuation or disposal).</li> </ul>
<p><b>0</b></p> <p><b>No unfavourable information gathered</b></p>	<p>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).</p> <p><b>Rating criteria</b></p> <ul style="list-style-type: none"> <li>Company recorded in the Fiben database and that does not warrant the gathering of accounting records.</li> <li>Company for which the Banque de France: <ul style="list-style-type: none"> <li>either does not possess any recent accounting records;</li> <li>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.</li> </ul> </li> </ul>

## 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 or P
Public administrations, general government, credit institutions	0
State-owned industrial and commercial companies (Établissement Public industriel ou Commercial - EPIC)	0, 3++ , 3+ , 3 (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.

# 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](http://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](http://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](http://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.

### 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](http://www.fiben.fr) News, rating and its explanation, the code of conduct of the rating activity, management indicators, user guide.
- [www.iedom.fr](http://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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