



GCR Releases a Frequently Asked Questions Publication on Distressed Debt Exchanges

Summary

Johannesburg, 28 October 2020 - GCR Ratings (“GCR”) has released a Frequently Asked Questions (“FAQ”) publication on Distressed Debt Exchanges (“DDEs”) and the related transition of the ratings of issuers that are in distress.

The publication is available for download at www.GCRratings.com/criteria

GCR considers a DDE to be pre-emptive restructuring undertaken by an issuer in a bid to avoid defaulting on its debt obligations, which prejudices creditors or debt security investors. In GCR’s view, an entity is distressed, such debt exchanges or restructuring would typically be considered to be similar to a default, even if creditors may choose not to call a default. DDEs are expected to constitute the overwhelming majority of defaults that will be observed in 2020, due to the restricted global productivity necessitated by the COVID-19 pandemic.

The publication applies to all GCR issue and issuer ratings and provides clarification of factors considered in determining a DDE. It also explains the distinction between proactive refinancing and DDEs, the typical rating transition that GCR typically follows when an issue or issuer is viewed to be distressed, and conditions under which issue and issuer ratings would typically be upgraded following the observation of default(s).

As the FAQ piece is not separate criteria, it should be read in conjunction with our Criteria for the GCR Ratings Framework, Criteria for Rating Structured Finance Transactions, and GCR’s Rating Scales, Symbols and Definitions.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Structured Finance Transactions, updated Sep 2018



GCR Ratings Scales, Symbols & Definitions, May 2019
