Classifying Corporate Bonds: A Simple Approach

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ABSTRACT
This paper introduces a simple approach to classify corporate bonds. It relies entirely on the quoted price as well as on the quoted bid and ask price of corporate bonds. If current bond prices reflect all the relevant corporate information, then this approach is sufficient for a credit rating which is also up-to-date. We apply the approach outlined in the paper to the group of coupon-bearing bonds issued by banks as well as to other groups of corporate bonds including industrial companies and federal states. Our five-year experience shows that our algorithm works well, even for illiquid markets.

First version: January 2005
Revised: July 2007
Appeared in Economic and Financial Computing, 17 (2): 53 – 82.

KEYWORDS: Corporate bond, Credit rating

* This paper has been presented at the Swiss Exchange SWX in March 2005, at a meeting of the Swiss Bond Commission in October 2005 and at a meeting of the European Bond Commission held in Budapest in June 2006. I am indebted to the participants for their comments, in particular to François-Marie Monnet, MultiPlusfinance Geneva, for pointing out the legal status of corporate bonds.

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