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Complexity Level of the Rated Instruments

Brickwork Ratings has classified financial instruments based on their degree of complexity from the perspective of various market participants, especially investors. The BWR Complexity Level Scale of the rated financial instruments provides the investor community with an opinion on the relative complexity of a market instrument.

Classification of financial instruments is done on three levels of complexity: “Simple”, “Complex” and “Highly Complex” based on the degree of sophistication and due diligence required to assess the risks and returns associated with the financial instrument. The parameters that are used for assessment include Market Familiarity with the financial instrument, Ease of calculating associated Returns and Repayment period, Premature redemption, Number of counterparties involved in the transaction and Certainty in associated Cash Flows.

Classification

Simple: Such instruments are familiar instrument among the market participants / investors and the risk-return relationships are straightforward. Generally, such instruments have a fixed rate of return, pre-determined repayment period, no prepayment risk and involve one counterparty.

Complex: Instruments included in this category usually have variable rate of return, less straightforward risk-return characteristics, risk of prepayment, multiple counterparties and market participants are moderately familiar with the instrument.

Highly Complex: This Complexity level covers instruments where the risk-return relationship is complicated with several interdependent factors, ease of determining returns is complex and may involve forward looking analysis, variable rate of return and maturity profile, premature redemption, multiple counterparties and put/call/ step up options. Degree of familiarity among the market participants is not high and these instruments would generally be chosen by sophisticated investors.

The tables below indicate the complexity level of certain market instruments.

Corporate debt Instruments (Conventional)

Instrument / Facilities	Complexity Level
Bank Loans (Long Term and Short Term)	Simple
Commercial Paper (CP)	Simple
Fixed Deposit (FD)	Simple
Non Convertible Debenture (NCD) with a fixed rate of return	Simple
Non Convertible Debenture (NCD) with a fixed rate of return and put / call option	Complex
Non Convertible Debenture (NCD) with a variable rate of return	Complex
Non Convertible Debenture (NCD) with a variable rate of return and put / call option	Complex

Corporate Instruments (Hybrid)

Instrument	Complexity Level
Equity Shares	Simple
Convertible bonds (Optionally or Compulsory)	Simple
Exchange traded equity shares	Simple
Preference Shares	Simple
Strips (Separate Trading of Registered interest and principal Securities)	Complex
Foreign Currency Convertible Bonds	Complex
Commodity / Equity linked debentures / PPMLD	Complex

Corporate Instruments (Hybrid)

Instrument	Complexity Level
Certificate Of Deposit	Simple
Commercial Paper for NBFCs / Banks	Simple
Simple Tier 2 subordinated bonds	Complex
Senior Long Term bonds	Simple
Equity linked shares	Highly Complex
Innovative Perpetual Tier 1 bonds	Highly Complex
Perpetual Cumulative Preference shares (Tier 2)	Highly Complex
Perpetual Non-Cumulative preferred shares (Tier 1)	Highly Complex
Perpetual Preference shares	Highly Complex
Redeemable Cumulative / Non-Cumulative preferred shares (Tier 2)	Highly Complex
Upper Tier 2 subordinated bonds	Highly Complex
Basel III Compliant Tier I Bonds	Highly Complex
Basel III Compliant Additional Tier I Bonds (AT1)	Highly Complex
Basel III Compliant Tier II Bonds	Highly Complex

Structured Finance

Instrument	Complexity Level
Bonds backed by escrow account / full guarantee	Complex
Asset Backed Securities	Highly Complex
Bonds backed by partial guarantee	Highly Complex
Complex Backed Securities	Highly Complex
Security Receipts (SRs)	Highly Complex

Public Finance, Infrastructure & Project Finance

Instrument	Complexity Level
Municipal Bonds	Simple
Credit enhanced state owned corporations or Credit enhanced municipal bonds	Complex
Project Finance Loans (SPV backed by a particular asset)	Complex
Bonds issued for Pool financing of ULBs	Highly Complex

Derivatives

Instrument	Complexity Level
Derivatives with value depending on the underlying asset and other characteristics	Highly Complex

Others

Instrument	Complexity Level
REIT (Real Estate Investment Trusts)	Highly Complex
ULIP (Unit Linked Insurance Plans)	Highly Complex

Disclaimer:

BWR Complexity Level helps an investor to broadly understand the risk factors in the rated debt instruments. BWR does not assure accuracy of the information on which the complexity level has been assessed. BWR Complexity Level should not be considered as any recommendation to buy, sell or hold the instrument. BWR is not responsible for any errors nor does it have any financial liability whatsoever to the users of its rating.