Kamakura's Public Firm Models provide estimates of the full term structure of default probabilities of an individual firm based upon current public information about the firm, its economic environment, and the current risk of the public firms in its industry. Since the launch of the KRIS default probability service in November, 2002, Kamakura has been reporting its troubled company index in a press release immediately after the end of each month. For examples of the global credit conditions press release, please see the news section of www.kamakuraco.com. Kamakura defines a troubled company as one whose annualized monthly default probability is more than 1.00%. The troubled company index is the percentage of firms in the global KRIS public firm universe who are classified as troubled. As of this writing, the troubled company index is based on more than 31,000 firms in 37 countries. The troubled company index is derived directly from the “risk map” screen of KRIS. The right hand column of the risk map shows the number of public companies that have default probabilities in each interval listed: 0 to 2 basis points, 2 to 5 basis points, and so on. The all time high of the index is 27.41%, reached in October, 2001. The all time low for the index was 4.36% in December, 2010. Its long run average is 12.42%.
The KRIS troubled company index is calculated by adding up all companies whose one month annualized default probability is more than 1% for the Jarrow-Chava version 5.0 reduced form default model. This default model is described in a separate brochure on the Kamakura web site. The “JC5” model uses financial ratios, macro economic factors, and industry factors to predict default on a data base with 1.7 million observations dating back to January, 1990.

KRIS users can construct their own troubled company index using any of the five default models currently available on KRIS, using any maturity of default probability and any probability level that the user considers “troubled.” Kamakura can also aid users in creating a daily updated “expected number of defaults index” for any subset of the KRIS coverage that is of interest to the user. Please contact info@kamakuraco.com or call 808-791-9888, extension 8060, for more information. KRIS models and their effectiveness in predicting default are described in the KRIS Technical Guide, Version 5.0 (September, 2010), by Professor Robert Jarrow, Dr. Sean Klein, Mark Mesler, and Dr. Donald R. van Deventer. This technical guide is included in the KRIS subscription and is made available to all regulatory agencies subject to a confidentiality agreement.