



Pursuant to Article 35, paragraph 1, subparagraph 1.1 of the Law No. 03/L-209 on Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No.77 / 16 August 2010), and Articles 16 and 85 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (Official Gazette of the Republic of Kosovo, No.11 / 11 May 2012), the Board of the Central Bank of Republic of Kosovo at the meeting held on January 28, 2016, approved the following:

REGULATION ON USE OF EXTERNAL CREDIT ASSESSMENTS FOR THE PURPOSE OF CALCULATION OF REGULATORY CAPITAL

Article 1 Purpose and Scope

1. The purpose of this regulation is to set rules and criteria for the use of credit assessments from the external credit assessment institutions to determine risk weights for the purpose of calculating the capital requirements for credit risk according to the standardized approach of Pillar I of Basel Capital Standards.
2. This regulation is applied to all banks licensed by the CBK to operate in the Republic of Kosovo.

Article 2 Definitions

1. All terms used in this Regulation are as defined in Article 3 of the Law No.04/L-093 on Banks, Micro-finance Institutions and Non-Bank Financial Institutions (hereafter: the Law on Banks) and/or as further defined herein for the purpose of this Regulation in the following:
 - 1.1. **External credit assessment institution** (hereafter: ECAI) – shall be any legal entity that prepares and issues, on a professional basis, **solicited and/or unsolicited** credit ratings for the purpose of assessing credit risk.
 - 1.2. **Eligible ECAI** – means the External Credit Assessment Institution, recognized as such by the CBK. For the purposes of calculating the capital requirement, banks may use only the credit assessments of eligible ECAIs recognized by CBK.
 - 1.3. **Nominated ECAI** – means the eligible ECAI, the credit assessments of which, a bank has decided to use in line with its internal acts, when determining the risk weights in accordance with the CBK Regulation on Capital Adequacy.

- 1.4. **Export Credit Agency (hereafter: ECA)** – means the agency that supports export activities of natural and legal persons, from the countries where ECA has its registered office. ECAs provide government-backed loans, guaranties and insurance covering both commercial and political risk of the borrowing country. Banks, in the calculation of capital requirements, may use credit assessments published by ECAs, if they meet the conditions laid down in this Regulation.
- 1.5. **Recognized ECA** – the ratings of the Organization for European Co-operation and Development (OECD).
- 1.6. **Credit rating** means an opinion regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a financial instrument, issued using an established and defined ranking system of rating categories. Credit rating may be either **solicited or unsolicited**.
- 1.7. **Solicited credit rating** shall be considered any credit rating issued by eligible ECAI at exclusive request of its client with a certain fee.
- 1.8. **Unsolicited credit rating** shall be any other credit rating issued by eligible ECAI that has not been requested by the client which is a subject of the credit rating and without any fees required.
- 1.9. **Types of credit assessments include:**
- long-term and short-term credit assessments;
 - credit assessment of an obligor and credit assessment of a financial instrument,
 - credit assessments for market segments.
- 1.10. **The mapping of credit risk assessments** is a procedure in which the individual credit assessments of an eligible ECAI are associated with the credit quality steps specified in the Standardised approach of Pillar I – Basel Capital Framework.
- 1.11. **Market segments** shall include:
- Basic market segments;
 - A group of entities and/or financial instruments for which a recognized ECAI applies the same methodology and procedure for issuing, renewal or revocation of a credit rating.
- 1.12. **Basic market segments** are:
- **Public finances** - nonprofit public sector institutions (central government, central banks, public noncommercial institutions, local and regional government) and financial instruments issued by such entities (except for structured financial products);
 - **Trade companies** - public or private sector legal entities that operate on a commercial basis and financial instruments issued by such persons (except for structured financial products);

- **Structured financial products** - all issued structured financial products, irrespective of their issuer, including securitization products.

Article 3

Recognition of external credit rating institutions

1. Banks shall use the external credit assessment of ECAIs to determine the risk weight of one or several exposures, only if the ECAI which provides it, has been recognized as eligible for these purposes by CBK.
2. CBK may recognize an ECAI in one of the two ways:
 - 2.1. Indirect recognition** in cases where CBK will recognize an ECAI without carrying out its own recognition process. Indirect recognition procedure may be used for ECAIs based in a Member State of the European Union which is registered in accordance with the provisions of Regulation 1060/2009 of the European Parliament and the Council.
 - 2.2. Direct recognition** in cases where CBK will carry out its own assessment of the ECAI's compliance.
3. Each ECAI whose ratings will be used by a bank for the purposes of this Regulation shall file an application for its recognition. (Annex 1)
4. As a part of the indirect recognition of ECAIs, CBK is giving immediate and automatic recognition to institutions: "Fitch Ratings", "Moody's" and "Standard & Poor's" thus these institutions shall not be obliged to go through the application procedure determined with paragraph 3 of this article.
5. Any ECAI not qualifying for automatic (indirect) recognition by CBK will need to seek direct or indirect recognition according to the criteria set out in this regulation.
6. As a part of direct recognition CBK shall recognize an ECAI as eligible only if convinced that its assessment methodology complies with the requirements of objectivity, independence, ongoing review, and that the resulting credit assessments meet the requirements of credibility and transparency, and the technical criteria set out in this Regulation.
7. If an ECAI has been recognized as eligible by the competent authorities of a Member State of EU, CBK may recognize that ECAI as eligible without carrying out their own evaluation process.
8. CBK shall disclose an explanation of the recognition process, and a list of eligible ECAIs.

Article 4

Technical criteria for recognition of ECAIs

To be recognized by CBK, ECAI shall meet the following criteria:

1. **Objectivity:** The methodology applied by an ECAI for assigning credit assessments shall be rigorous, systematic, continuous, and subject to validation based on historical experience. To prove compliance with this requirement, CBK shall require the ECAI to meet the following conditions:
 - 1.1. the methodology applied should take into consideration the factors which differentiate the specific features of different positions assessed according to this methodology (the recognition process does not aim at verifying the accuracy of the methodology, but the latter should be backed by statistical evidence of its usage in the past);
 - 1.2. the explanatory ability of the methodology should be based upon available data on the default ratios, recorded for individual rating grades and ratings migration, amongst different rating grades;
 - 1.3. the methodology should be applied consistently to all exposure of a given class and should make the appropriate differentiations between exposures of different classes;
 - 1.4. the methodology should be validated within the ECAI based on historical experience; and
 - 1.5. the methodology should be adjusted based on the systematic mistakes coming up during the back-testing.

2. **Independence:** The methodology shall be free from external political influences or constraints, and from conflicts of interests and economic pressures that may influence the credit assessment. To prove compliance with this requirement, CBK shall require the ECAI to meet the following conditions:
 - 2.1. necessary measures have been taken to ensure the independence from ownership, and to prevent external political or economic influences or constraints that may jeopardize the objectivity of the credit assessment;
 - 2.2. the organization structure ensures, from an operational, human resources, and possibly legal perspective, the separation of the credit assessment activity from other activities, such as consulting and marketing, which can influence the objectivity of the assessment;
 - 2.3. internal rules have been approved to prevent conflicts of interests related to persons involved in the ratings making;
 - 2.4. the assessment activity is profitable and the ECAI has adequate available financial resources;
 - 2.5. the fee structure charged to assessed subjects and the compensation of persons responsible for the ratings making, is not affected by the rating results and vice versa;
 - 2.6. necessary measures have been taken to ensure the independence in the ratings from major customers that generate main part of income (more than 5%) ;

- 2.7. there is adequate staffing and proper level of expertise and professional experience in credit assessment ratings (for e.g. at least one of the persons involved in a rating decision shall have at least three years of experience). The staff members' number should be adequate for the business volume, taking into consideration also the necessary on-going contacts with the assessed subjects, where this is part of the methodology that has been used.
 - 2.8. internal government rules are clearly formalized;
 - 2.9. appropriate disclosure of any conflict of interest; and
 - 2.10. there exist an internal audit function (or other similar functions) independent from the persons involved in the ratings, and charged with the verification of the effective implementation of the independence criteria.
3. **On-going review:** ECAI's credit assessments are subject to on-going review and shall be responsive to changes in the financial conditions. To prove compliance with this requirement, CBK shall require the ECAI to meet the following conditions:
 - 3.1. the ECAI has procedures in place to monitor every change in the assessed economical units that may trigger important assessment changes, and if necessary, to immediately change the assessment and or assessments;
 - 3.2. Demonstration that a back-testing system is in place and has been up and running for at least one year; and
 - 3.3. the credit assessments shall be reviewed at least annually.
 4. **Market credibility:** ECAI's individual credit assessments are recognized in the market as credible and reliable by the users of such credit assessments. CBK shall assess the credibility criteria based on factors such as:
 - 4.1. market share of the ECAI;
 - 4.2. revenues generated by the ECAI, and more in general financial resources of the ECAI;
 - 4.3. whether there is any pricing on the basis of the rating; and
 - 4.4. at least two banks use the ECAI's individual credit assessment for bond issuing and/or assessing credit risks.
 5. **Transparency of methodology and credit assessments.** CBK in the ECAI's recognition process shall require that:
 - 5.1. the ECAI discloses the principles of the methodology and the assessment and every change in the methodology, so as they are understandable for the users of the credit assessment;
 - 5.2. the individual credit assessments are accessible at equivalent terms and to all banks having a legitimate interest in these individual credit assessments; and
 - 5.3. in particular, the individual credit assessments are accessible to the non-domestic banks on equivalent terms as to domestic banks having a legitimate interest in these credit assessments.

Article 5

Mapping of ECAI's credit assessments

1. CBK, taking into account the technical criteria set out in this regulation on the recognition of ECAI's, has determined the mapping process with which are associated the credit quality steps set out and the relevant credit assessments of an eligible ECAI. The CBK mapping for indirect recognition of ECAI's is issued with the CBK regulation on capital adequacy.

2. When the competent authority of a Member State of the EU have made a determination under paragraph (1) of this Article, CBK may recognize that determination without carrying out its own process of determining the association between the credit quality and respective credit assessments.

3. The mapping process for cases of direct recognition of ECAIs is provided with the Annex 1 of this Regulation.

Article 6 **Application requirements related to the recognition of ECAIs**

1. CBK, upon submission of application by an ECAI, may recognize the ECAI based on the compliance with the criteria set out in this regulation.
2. The ECAI shall prepare an application for recognition in cooperation with the banks having an interest in its recognition. The application for recognition shall be accompanied by the documentation which shall evidence compliance with the criteria prescribed in this regulation.
3. Where CBK recognizes an ECAI without carrying out its own assessment of the ECAI's compliance with criteria set out in this regulation - CBK will determine on a case-by-case basis what information the ECAI is to provide in its written application.
4. In exclusion from what is determined in point 2.2 of paragraph (2) of Article 3, an ECAI recognized by the competent authority of an EU Member State, shall enclose with the application the documentation which shall evidence that it has been recognized by that competent authority.
5. In cases of direct recognition all the requirements shall be fulfilled and the information as determined with Annex 2 of this regulation shall be provided.
6. When deciding on the application, CBK may request additional documentation that it deems necessary.

Article 6 **Monitoring of the eligible ECAI's**

1. The eligible external institution is obliged to continuously meet the criteria it has fulfilled in the recognition process.
2. CBK shall monitor the fulfillment of criteria that were the basis for issuing the approval for the use of credit ratings established by that ECAI.
3. CBK may request from the eligible ECAI and banks information significant for the assessment of fulfillment of the criteria that were the basis for issuing the approval for the use of credit ratings established by that ECAI.

Article 7
Revocation of recognition of ECAIs

1. CBK may revoke a recognition of an ECAI in cases when:
 - 1.1. an eligible ECAI fails to meet the recognition criteria set out in this regulation;
 - 1.2. an eligible ECAI which has been recognized by CBK under the indirect recognition method is no longer recognized as such by the Member State of the EU.

Article 9
Use of the ECAIs credit assessments for the determination of risk weights

1. General requirements

- 1.1. A bank may nominate one or more ECAIs to be used for the determination of risk weights to be assigned to assets and off-balance sheet items.
- 1.2. A bank may revoke its nomination of an ECAI. A bank shall substantiate the revocation if there are concrete indications that the intention underlying the revocation is to reduce the capital adequacy requirements.
- 1.3. Credit assessments shall not be used selectively.
- 1.4. A bank may use solicited and unsolicited credit assessments from eligible ECAI's.

2. Credit assessment of ECAI

In using credit assessment from an ECAI, a bank shall comply with the following requirements:

- 2.1. A bank which decides to use the credit assessments produced by an ECAI for a certain class of items shall use those credit assessments consistently for all exposures belonging to that class;
- 2.2. A bank which decides to use the credit assessments produced by an ECAI shall use them in a continuous and consistent way over time;
- 2.3. A bank shall only use ECAIs credit assessments that take into account all amounts both in principal and in interest owed to it;
- 2.4. where only one credit assessment is available from a eligible ECAI for a rated claim, that credit assessment shall be used to determine the risk weight for that claim;
- 2.5. where two credit assessments are available from two ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;
- 2.6. where more than two credit assessments are available from different eligible ECAI for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

3. Notwithstanding paragraph 2 of this article, the bank cannot choose a recognized ECAI that is:
 - 3.1. A subsidiary of the bank;
 - 3.2. The bank's parent entity; or
 - 3.3. Entity in which the bank directly or indirectly participates or along with other banks, directly or indirectly owns more than 50% of the total number of shares or stocks or voting rights of that entity.
4. A bank is obliged to determine by its internal acts the method of selection of a recognized ECAI and the method of using its credit ratings.

Article 10 **Issuer and issue credit assessment**

1. Where a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure belongs, this credit assessment shall be used to determine the risk weight to be assigned to that item.
2. Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing programme or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment shall be used in either of the following cases:
 - 2.1. it produces a higher risk weight than would otherwise be the case and the exposure in question ranks pari passu or junior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant;
 - 2.2. it produces a lower risk weight and the exposure in question ranks pari passu or senior in all respects to the specific issuing programme or facility or to senior unsecured exposures of that issuer, as relevant.
3. In all other cases, the exposure shall be treated as unrated.
4. External assessments for one entity within a corporate group cannot be used to risk weight other entities within the same group.

Article 11 **Short-term credit assessments**

1. Short-term credit assessments may only be used for short-term asset and off-balance sheet items constituting exposures to banks and corporates.

2. Any short-term credit assessment shall only apply to the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item, except in the following cases:
 - 2.1. if a short-term rated facility is assigned a 150 % risk weight, then all unrated unsecured exposures on that obligor whether short-term or long-term shall also be assigned a 150 % risk weight;
 - 2.2. if a short-term rated facility is assigned a 50 % risk-weight, no unrated short-term exposure shall be assigned a risk weight lower than 100 %.

Article 12
Domestic and foreign currency items

1. A credit assessment that refers to an item denominated in the obligor's domestic currency cannot be used to derive a risk weight for another exposure on that same obligor that is denominated in a foreign currency.
2. When an exposure arises through an institution's participation in a loan that has been extended by a multilateral development bank whose preferred creditor status is recognized in the market, the credit assessment on the obligors' domestic currency item may be used for risk weighting purposes.

Article 13
Implementation, remedial measures and civil penalties

Any violation of the provisions of this Regulation shall be subject to remedial and punitive measures, as defined in the Central Bank Law and the Law on Banks.

Article 14
Transitory provisions

Banks shall comply with the requirements of this regulation within three (3) months after its entry into force.

Article 15
Annexes

Annex 1 and Annex 2 are part of this regulation.

Article 16
Entry into force

This Regulation shall enter into force on 01 February 2016.

Chairman of the Board of Central Bank of the Republic of Kosovo

Dr. Prof. Bedri Peci

ANNEX 1
The Mapping Process for cases of Direct Recognition of ECAIs

1. In order to differentiate between the relative degrees of risk expressed by each credit assessment, CBK shall consider quantitative factors such as the long-term default rate associated with all items assigned the same credit assessment. For recently established ECAIs and for those that have compiled only a short record of default data, CBK shall ask the ECAI what it believes to be the long-term default rate associated with all items assigned the same credit assessment.
2. In order to differentiate between the relative degrees of risk expressed by each credit assessment, CBK shall consider qualitative factors such as the pool of issuers that the ECAI covers, the range of credit assessments that the ECAI assigns, each credit assessment meaning and the ECAI's definition of default.
3. CBK shall compare default rates experienced for each credit assessment of a particular ECAI and compare them with a benchmark built on the basis of default rates experienced by other ECAIs on a population of issuers that the CBK believes to present an equivalent level of credit risk.
4. When CBK believes that the default rates experienced for the credit assessment of a particular ECAI are materially and systematically higher than the benchmark, CBK shall assign a higher credit quality step in the credit quality assessment scale to the ECAI credit assessment.
5. When CBK have increased the associated risk weight for a specific credit assessment of a particular ECAI, if the ECAI demonstrates that the default rates experienced for its credit assessment are no longer materially and systematically higher than the benchmark, CBK may decide to restore the original credit quality step in the credit quality assessment scale for the ECAI credit assessment.
6. CBK shall map credit assessments by a ECAI in the following way:
 - 6.1 Using direct mapping.
 - 6.2 CBK shall continuously monitor the adequacy of mapping of credit assessments referred to in paragraph 1 above, as well as changes in mapping and if it assesses that the mapping is no longer adequate, it shall directly re-map.
 - 6.3 CBK shall use a three-year cumulative default rate (hereinafter: three-year CDR) and other quantitative and qualitative data to map credit assessments.
 - 6.4 In mapping long-term credit assessments, CBK shall compare a ten-year average of the three-year CDR for all legal entities assigned the same long-term credit assessment by the credit assessment institution with the long-term reference three-year CDR for the relevant credit quality step, in accordance with the following table (Table 1):

Table 1

Credit quality step	1	2	3	4	5
Long-term reference three-year CDR	0.10%	0.25%	1.00%	7.50%	20,00%

6.5 In mapping referred to in point 6.4 above, the two most recent three-year CDRs for all legal entities assigned the same long-term credit assessment by the credit assessment institution shall be compared with the monitoring level benchmark and the trigger level benchmark of the three-year CDR for the relevant credit quality step, in accordance with the following table (Table 2):

Table 2

Credit quality step	1	2	3	4	5
Monitoring level three-year CDR benchmark	0.80%	1.00%	2.40%	11.00%	28.60%
Trigger level three-year CDR benchmark	1.20%	1.30%	3.00%	12.40%	35.00%

6.6 By way of derogation from point 6.4 above, if the credit assessment institution does not have a sufficiently long series of default rates, it shall estimate a ten-year average of the three-year CRD, as well as other quantitative parameters used in credit assessments mapping.

6.7 The CBK shall first map long-term credit assessments by comparing the actual or estimated ten-year average of the three-year CDR assigned to the long-term credit assessment with the long-term reference three-year CDR for the appropriate credit quality step, as laid down in Table 1. This mapping is confirmed using the monitoring level three-year CDR benchmark and the trigger level three-year CDR benchmark for the relevant credit quality step, in accordance with Table 2, in the following way:

- a) when the most recent three-year CDR of assigned credit assessment is above the relevant monitoring level benchmark, the CBK shall assign a less favorable credit quality step than the one associated with credit assessment assigned by the ECAI, if it determines that the higher default experience is attributable to weaker standards in assessing credit risk;
- b) when the two most recent three-year CDRs of assigned credit ratings are above the relevant trigger level, the CBK shall assign a less favorable credit quality step than the one associated with credit assessment assigned by the ECAI, if there is a presumption that the ECAIs standards for assessing credit risk are either to weak or are not applied appropriately.

7. If CBK, under paragraph 6.7 above, assigned a less favorable credit quality step, and the ECAI subsequently proves that the default rates relating to a particular credit assessment no longer markedly differ from the reference rates, CBK may assign the original credit quality step.

8. In mapping long-term credit assessments, CBK, in addition to the three-year credit assessments, also analyses other data it deems necessary.

9. CBK shall map short-term credit assessments based on the results of long-term assessments mapping, as well as on the results of short-term credit assessments mapping that the ECAI made on the basis of long-term credit assessments.

ANNEX 2

Common Basis Application Pack *

GENERAL INFORMATION

- The type of application: to use ECAI credit assessments for risk weighting in the Standardized Approach, or for risk weighting of securitisations.
- The market segments for which the applicant is seeking recognition.
- The type of credit assessments provided: solicited or/and unsolicited, with a brief explanation of the rationale behind the policy.
- The competent authorities where the applicant is seeking recognition or intends to seek recognition.
- The countries where the applicant is active.

Presentation of the ECAI

- An overview of the legal structure of the ECAI and the group to which it belongs: ownership, major subsidiaries, ancillary or other services provided, etc. The information on ownership should include a list of shareholders that hold more than, for example, 10 percent of the ECAI's equity. This threshold may vary depending on the ownership structure of the ECAIs.
- The total number of fulltime employees.
- The total number and percentage of revenues from major customers and/or subscribers (e.g. customers or subscribers accounting for 5% or more of total revenues; the threshold may vary depending on the ECAIs).
- Financial information demonstrating the financial soundness of the ECAI: the ECAI's financial statements from the past three years and forecasts for the next three years where applicable; alternatively, letter of support from the parent entity.
- Do you adhere to a code of conduct similar to market accepted standards or which is in line with internationally recognized principles.

Technical criteria

The applicant shall include in its application a description of the core rating process for each market segment or securitisation position and each geographical area in which it is seeking recognition. The applicant is not required to provide duplicate answers and information for this application pack, but will clearly indicate for each recognition criteria what differs from one area of recognition to another.

CBK is interested only in information that is relevant to the market segments and/or securitisation positions for which the application is made.

METHODOLOGY

1. Objectivity

Question:

How do you ensure that the methodology used for assigning credit assessments is rigorous, systematic and subject to validation based on historical experience?

Minimum information to be provided to the CBK in order to verify that the criterion is met:

- 1) A high level description of the credit assessment methodology and processes and how the methodology is determined, implemented, and changed. This description shall include a description of processes in place to ensure the consistent application of the assessment methodologies across all credit assessments, in particular the role of rating committees and guidelines governing them, the extent of input from rated entities, the access to non-public information, etc.
- 2) For each of the asset groupings within which a core methodology is applied consistently (for example, structured finance, public finance, or commercial entities, as mentioned above), a high level description of quantitative inputs: key variables, data sources, assumptions and quantitative techniques used, extent of input from rated entities, etc.
- 3) For each of the asset groupings within which a core methodology is applied consistently (for instance structured finance, public finance, commercial entities, as mentioned above), a high level description of qualitative inputs in particular the scope of qualitative judgment e.g. regarding the strategy, business plans of the rated entities, etc.
- 4) A summary by geographical area of the major differences in the core methodologies.
- 5) A description of the methodology used to verify the accuracy, consistency, and discriminatory power of the rating systems, with details on the results and conclusions generated by such analysis.

2. Independence

Question:

How do you ensure that the methodology used is free from external political influences or constraints and from economic pressures that could influence the credit assessment?

Minimum information to be provided to the CBK in order to verify that the criterion is met:

- 1) A description of the procedures aimed at ensuring fair and objective credit assessments: mechanisms to identify, prevent, manage and eliminate actual or potential conflicts of interest.
- 2) A detailed description of the safeguards in place when shareholders, subsidiaries, or other entities belonging to the group are rated.
- 3) Demonstration and self-certification of the existence of an internal audit function and/or that there are means to ensure that internal procedures are implemented effectively.
- 4) Demonstration and self-certification that members of the rating teams and committees have appropriate and requisite skills – including quantitative expertise – and experience in credit assessment, and that these skills are maintained or improved over time through adequate training programmes.
- 5) A description of the main features of the ECAI's internal code of conduct.

6) Demonstration and self-certification that the remuneration policy of the staff involved in credit assessment does not affect the production of independent and objective credit assessments: e.g. certification that analysts' remuneration is not tied to credit assessment decisions, fees from issuers, or revenues from investors or subscribers.

7) Details of the ECAI's fee policy.

8) Self certification that the staff involved in the credit assessment process are not engaged in any business relationships with rated entities which could hinder the issuance of independent and high quality credit assessments.

3. Ongoing review

Questions:

1) Are your credit assessments subject to ongoing review which is carried out at least annually and after all significant events?

2) To what extent are your credit assessments responsive to changes in the financial conditions?

3) Do you have procedures in place that ensure that competent authorities are promptly informed of material changes, and if so, what are they?

Minimum information to be provided to the CBK in order to verify that the criterion is met:

1) General information on rating reviews: e.g. the process in place, main characteristics, scope, frequency, people/teams involved, means used, treatment, main phases of the monitoring process, data updates, information from rated entities taken into account, automatic warning systems, mechanisms that allow systematic errors in credit assessments to feedback into potential changes in ratings method, etc.

2) A summary of the outcome of the reviews carried out.

3) Demonstration that a backtesting system is in place and has been up and running for at least one year.

4) The extent of contacts with the senior management of the rated entities (this information is to be provided upon request of the competent authority).

4. Transparency and disclosure

Question:

How (by what means and in what language) and to whom do you disclose the principles of the methodology you use?

Minimum information to be provided to the CBK in order to verify that the criterion is met:

1) A demonstration that the principles of the methodology employed by the ECAI for the formulation of its credit assessments are disclosed.

2) Descriptions of the ways used to make methodologies publicly available, and of the terms of access to the credit assessments by all potential users.

3) A description of transparency policy with regard to the types of credit assessment: solicited or unsolicited.

INDIVIDUAL CREDIT ASSESSMENTS

5. Credibility and market acceptance

Question:

How could you prove your credibility and market acceptance?

Minimum information to be provided to the CBK in order to verify that the criterion is met:

1) Any evidence demonstrating market reliance on the credit assessments, such as market share, number of issuers, how long the ECAI has been active in the market, the revenues generated by the rating activities, or any other proof.

6. Transparency and disclosure

Questions:

- 1) How do you ensure that credit assessments are accessible at equivalent terms at least to all institutions having a legitimate interest in them?
- 2) In particular, how do you ensure that credit assessments are accessible at equivalent terms to both domestic and non-domestic parties having a legitimate interest?

Minimum information to be provided to the CBK in order to verify that the criterion is met:

- 1) A high level description of the disclosure procedures in place.

MAPPING

Question: None

Minimum information to be provided to the CBK in order to perform the mapping the credit assessments of exposures other than securitization positions:

- 1) The definition of default
- 2) The CDR over a three year period for each credit assessment category (to be provided annually if the ECAI is recognized as eligible), at least the two most recent CDRs, if available.
- 3) The ten year average of the three year CDR. If not available, an indication of the ECAI's expectation concerning the long term default rate.
- 4) If a target probability of default is used, the target probability of default for each credit assessment category.
- 5) Description of the methodology to calculate the CDRs: selection of pool (static versus dynamic/adjusted), definition of default, aggregation of defaults (weighting mechanism),
- 6) The statistical significance of the default rates.
- 7) Dynamic characteristics of the rating methodology (point in time or through the cycle),
- 8) The meaning of the credit assessment categories.
- 9) The range of credit assessments that the ECAI assigns.
- 10) The time horizon of the credit assessment.
- 11) Transition matrices.
- 12) Geographic coverage.

Minimum information to be provided to the CBK in order to perform the mapping of securitization positions

- 1) the definition of default/impairment on the basis of which the default/impairment rates are computed.
- 2) Ratings' performance data, accompanied by an explanation of its main features (e.g. the reasons underlying the determination of the time horizon over which the study has been carried out and how curing and withdrawn credit assessments impact the rating performance studies; how seasoning is taken into account).
- 3) loss/recovery data.
- 4) Information referred to point 8 to 12 above.

*CEBS – Committee of European Banking Supervisors – Guidelines on the recognition of External Credit Rating Agencies.