

Information on Recognition of Rating Agencies for Purposes of Calculation of Minimum Own Funds Requirements

The new rules for banking regulation set out in Directive 2006/48/EC of the European Parliament and of the Council dated 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (hereinafter referred to as "the Directive")¹, and the upcoming generally binding legal regulations (in particular amendments to the Act on Banks and to the Decree of the NBS on the adequacy of banks' own funds for financing purposes) to enter into effect in 2007 will permit the use of ratings from recognized ratings agencies for the purposes of calculating own funds for banks and investment firms. Specifically, they will facilitate the determination of risk weightings of exposures pursuant to the standardised approach for the purposes of determining credit risk and, pursuant to both approaches, i.e. the standardised approach and the internal ratings-based approach (IRB) for the purposes of securitisation.

On 20 January 2006, the Committee of European Banking Supervisors (hereinafter referred to as "CEBS") published on its website its Guidelines on the Recognition of External Credit Assessment Institutions (hereinafter referred to as "the Guidelines")². The Guidelines recommend that, due to the protracted nature of the assessment process, supervisors should launch a process of informal evaluation of assessment institutions even before the above legislation enters into effect. It means that an assessment institution complying with the requirements of the CEBS Guidelines may presently submit its informal application for recognition to the Národná banka Slovenska, as well as to other supervisors of the EU/EEA, for review at both the national and international levels within the framework of the joint assessment process.

In February 2006, Národná banka Slovenska received the first informal applications from three international rating agencies and, in collaboration with other supervisors of EU/EEA countries within the framework of the joint assessment process, commenced their informal assessment. The joint assessment process principle was selected with a view to reducing the administrative and process load of the recognition process and unifying the procedures of the participating countries with the aim of establishing a consistent environment and comparable conditions for banks and investment firms to pursue their business within the EU/EEA. The recognition applications were submitted for the purposes of determining the risk weightings of exposures under the standardised approach for the market segments of public finance and commercial undertakings (including undertakings and financial, credit and other institutions) and structured finances on the one hand, and for securitisation on the other. The informal applications were lodged at a group level, i.e. in respect of several subsidiaries controlled by a ratings agency. The ratings agencies were the following:

- Moody's Investors Service Ltd, UK;
- Fitch Ratings, UK;
- McGraw-Hill International (U.K.) Limited – Standard&Poor's Ratings Services.

Pursuant to the requirements of the Directive and the CEBS Guidelines, supervisors from the EU/EEA Member States were required to review whether or not the methodologies of the ratings agencies and their management as such met the requirements for objectivity, independence, interim assessment and methodology control and review, transparency and disclosure, and whether or not the ratings complied with the requirements for credibility, market acceptance, transparency and disclosure. The joint assessment process was completed in July 2006. The supervisors from the EU/EEA Member States were satisfied that all three ratings agencies met the requirements stipulated in the CEBS Guidelines³. From the evaluation reports so prepared, and on its own assessment of compliance with the requirements laid down in the upcoming NBS Decree as of its entry into effect, Národná banka Slovenska will determine whether or not the rating agencies so evaluated should be recognised, and will publish its decision on its website once the relevant legislation enters into effect.

Having regard to the review of the qualitative and quantitative information and data provided by the ratings agencies within the framework of the joint assessment process, the supervisory authorities from the EU/EEA countries decided on the mapping of agencies' credit risk assessments to credit quality steps based on which the risk weightings of exposures will be determined⁴. The proposed

¹ http://eur-lex.europa.eu/LexUriServ/site/sk/oj/2006/1_177/1_17720060630sk00010200.pdf

² <http://www.c-ebs.org/pdfs/GL07.pdf>

³ <http://www.c-ebs.org/Press/04082006.htm>

⁴ <http://www.c-ebs.org/Press/04082006b.htm>

mapping is consistent with the mapping recommended by the Basel Committee on Banking Supervision⁵.

Proposed mapping of long-term credit assessments, including credit assessments of collective investment undertakings (“CIU”) and their funds – the standardised approach (Directive 2006/48: Annex VI, Part 1, Para 2, Table No. 1; Para 29, Table No. 4; Para 31, Table No. 5; Para 41, Table No. 6; Para 75, Table No. 8; upcoming NBS Decree on adequacy of banks’ own funds of financing: Section 18, Table No. 7; Section 23, Tables Nos. 9 and 10; Section 24, Table No. 11; Section 32, Table No. 13):

Credit Quality Step	S&P	Moody’s	Fitch Ratings	Corporations	Institutions		Governments and Central Banks
					Maturity >3 months	Maturity of 3 months and less	
1	AAA to AA-	Aaa to Aa3-	AAA to AA-	20%	20%	20%	0%
2	A+ to A-	A1 to A3	A+ to A-	50%	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	50%	50%	20%	50%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%	100%	50%	100%
5	B+ to B-	B1 to B3	B+ to B-	150%	100%	50%	100%
6	CCC+ and worse	Caa1 and worse	CCC+ and worse	150%	150%	11500%	150%

Credit Quality Step	S&P		Moody’s	Fitch Ratings	CIU’s + unit trusts
	Principal Stability Fund	Fund Credit Quality			
1	AAA m to AA-m	AAA f to AA-f	Aaa to Aa3-	AAA to AA-	20%
2	A+m to A-m	A+f to A-f	A1 to A3	A+ to A-	50%
3	BBB+m to BBB-m	BBB+f to BBB-f	Baa1 to Baa3	BBB+ to BBB-	100%
4	BB+m to BB-m	BB+f to BB-f	Ba1 to Ba3	BB+ to BB-	100%
5	B+m to B-m	B+f to B-f	B1 to B3	B+ to B-	150%
6	CCC+m and worse	CCC+f and worse	Caa1 and worse	CCC+ and worse	150%

⁵ <http://www.c-eps.org/documents/Basel.pdf>

Proposed mapping of short-term credit assessments, including credit assessments of corporations and institutions – the standardised approach (*Directive 2006/48: Annex VI, Part 1, Para 73, Table No. 7; upcoming NBS Decree on adequacy of banks' own funds of financing: Section 31, Table No. 12*):

Credit Quality Step	Risk Weight	Short-term rating of a corporation		
		S&P	Moody's	Fitch Ratings
1	20%	A-1+, A-1	P-1	F-1+, F-1
2	50%	A-2	P-2	F-2
3	100%	A-3	P-3	F-3
4	150%	B-1, B-2, B-3, C	N/A	Worse than F-3
5	150%			
6	150%			

Proposed mapping of long-term credit assessments of securitisation positions:

Standardised approach (Directive 2006/48: Annex IX, Part 4, Para 6, Table No. 7; upcoming NBS Decree on adequacy of banks' own funds of financing: Section 143 (1), Table No. 23):

Credit Quality Step	Risk Weight	Rating grades		
		S&P	Moody's	Fitch Ratings
1	20%	AAA to AA-	Aaa to Aa3-	AAA to AA-
2	50%	A+ to A-	A1 to A3	A+ to A-
3	100%	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	350%	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5 and below	1250%	B+ and worse	B1 and worse	B+ and worse

IRB approach (Directive 2006/48: Annex IX, Part 4, Para 46, Table No. 4; upcoming NBS Decree on adequacy of banks' own funds of financing: Section 146 (1), Table No. 26):

Credit Quality Step	Risk Weight			Long-term rating of a securitisation position		
	A*	B*	C*	S&P	Moody's	Fitch Ratings
1	7%	12%	20%	AAA	Aaa	AAA
2	8%	15%	25%	AA	Aa	AA
3	10%	18%	35%	A+	A1	A+
4	12%	20%	35%	A	A2	A
5	20%	35%	35%	A-	A3	A-
6	35%	50%	50%	BBB+	Baa1	BBB+
7	60%	75%	75%	BBB	Baa2	BBB
8	100%	100%	100%	BBB-	Baa3	BBB-
9	250%	250%	250%	BB+	Ba1	BB+
10	425%	425%	425%	BB	Ba2	BB
11	650%	650%	650%	BB-	Ba3	BB-
11 and below	1250%	1250%	1250%	Worse than BB-	Worse than Ba3	Worse than BB-

Proposed mapping of short-term credit assessments of securitisation positions:

Standardised approach (Directive 2006/48: Annex IX, Part 4, Para 6, Table No. 2; upcoming NBS Decree on adequacy of banks' own funds of financing: Section 143 (1), Table No. 24):

Credit Quality Step	Risk Weight	Short-term rating of securitisation position		
		S&P	Moody's	Fitch Ratings
1	20%	A-1+, A-1	P-1	F-1+, F-1
2	50%	A-2	P-2	F-2
3	100%	A-3	P-3	F-3
All other credit assessments	1250%	All short-term credit assessments worse than A3	N/A	Worse than F-3

IRB approach (Directive 2006/48: Annex IX, Part 4, Para 46, Table No. 5; upcoming NBS Decree on adequacy of banks' own funds of financing: Section 146 (1), Table No. 27):

Credit Quality Step	Risk Weighting			Short-term rating of securitisation position		
	A*	B*	C*	S&P	Moody's	Fitch Ratings
1	7%	12%	20%	A-1+, A-1	P-1	F-1+, F-1
2	12%	20%	35%	A-2	P-2	F-2
3	60%	75%	75%	A-3	P-3	F-3
All other credit assessments	1250%	1250%	1250%	All short-term credit assessments worse than A3	All short-term credit assessments worse than P-3	Worse than F-3

* Whereas:

A: Most senior (securitisation) tranche

B: Base; other positions

C: Non-granular pool; actual amount of positions < 6