

Content of question:

In which way shall a liable entity determine the credit quality step of financial collateral in the form of a debt security for the period before 8 February 2008 where no agency had yet been approved for credit assessments in case it uses supervisory volatility adjustments?

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Approved by: **Pavel Vacek**

Date: **25 February 2008**

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| Piece of law | Decree No. 123/2007 Coll. |
| Provision | Annex 15, A, I, 2, b) Annex 16, II, 3 |
| Explanation | <p>A list of rating agencies having received regulatory approval, including a conversion table for assigning credit quality steps to ratings issued by a given agency, is published on the CNB website under the reference Financial market supervision – List of credit assessment agencies (address http://www.cnb.cz/cs/dohled_fin_trh/seznam_ratingovych_agentur).</p> <p>Any use of ratings for regulatory purposes is not possible in relation to the period before 8 February 2008 where no agency had yet been approved for regulatory purposes. The liable entity must handle the situation by paying regard to the particular conditions which only it itself can assess. However, it is the following possibilities that may theoretically deserve consideration in particular:</p> <ul style="list-style-type: none">a) to use the Financial Collateral Simple Method, which is based on the substitution of risk weights, within the Standardised Approach framework,b) to use the Financial Collateral Comprehensive Method with supervisory volatility adjustments, however, to take account of only such collateral that meets regulatory requirements and its taking into account does not require determining a credit quality step,c) to use own estimates of volatility adjustments – their use, however, is subject to meeting further conditions laid down in Decree No. 123/2007 Coll. (especially in Annex 16, II, 3, i)), which include, inter alia, "not being refused" by the Czech National Bank,d) to use a rating issued by an export credit agency pursuant to Article 89, 1, b) and c) of Decree No. 123/2007 Coll. |