

Content of question:

How often and under which conditions may a liable entity change the rating agency or agencies it has chosen for the purpose of calculating the capital requirement?

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Approved by: **Pavel Vacek**

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Piece of law	Decree No. 123/2007 Coll.
Provision	Annex 9, A Annex 19, 2 Article 25 Article 217
Explanation	<p>External ratings are used for the purpose of determining risk weights of exposures and, consequently, for the purpose of calculating the credit risk capital requirement in case the liable entity uses the Standardised Approach, or possibly the Standardised Approach as part of the IRB Approach, or the Ratings Based Method for securitised exposures. Pursuant to Annex 9, A, or to Annex 19, 2 (in the case of securitisation) the liable entity shall select one or more rating agencies from the list of eligible rating agencies kept by the CNB pursuant to the Act on Banks. Subsequently, the liable entity shall use the selected rating agencies in a consistent manner (i.e. consistent materially and over time). The liable entity shall also apply the obligatory rules stated in the above-mentioned Annexes to the Decree in case ratings issued by individual agencies differ.</p> <p>The consistent manner requirement on ratings means that the selection should be long-term and its intention is to prevent the liable entity from changing arbitrarily its selected rating agencies in relation to the instantaneous degree of "severity" of ratings issued by the nominated rating agency.</p> <p>As external ratings are a significant part of the procedures for measuring, monitoring and evaluating risks, it can be further concluded from Article 25 of the Decree that the bank or credit union shall have established procedures for the selection of rating agencies, or for the reassessment of a given choice, as part of the risk management system.</p> <p>The liable entity shall inform the Czech National Bank of its choice of the eligible rating agency (or possibly the credit export agency) without needless delay, pursuant to Article 217 of the Decree.</p>