

Chapter 4

Capital resources

4.2E Use of external credit assessments

- 4.2E.1** **R** For the calculation of *risk weighted exposure amounts*, a *firm* must use solicited credit assessments from *ECAs* in the following manner:
- (1) consistently and in accordance with this section; and
 - (2) not selectively.
- Treatment**
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- 4.2E.2** **R** A *firm* must nominate one or more *eligible ECAs* to be used for the determination of *risk weights* to be assigned to on-balance sheet items.
- 4.2E.3** **R** A *firm* must only use a *nominated ECA's* credit assessments that take into account all amounts of both principal and interest owed to it.
- 4.2E.4** **R** A *firm* which uses the credit assessments produced by a *nominated ECA* must do so in a continuous and consistent way over time.
- 4.2E.5** **R** A *firm* which uses the credit assessments produced by a *nominated ECA* for a certain *exposure* class must use those credit assessments consistently for all *exposures* belonging to that class.
- 4.2E.6** **R** If only one credit assessment is available from a *nominated ECA* for a rated item, that credit assessment must be used to determine the *risk weight* for that item.
- 4.2E.7** **R** If two credit assessments are available from *nominated ECAs* and the two correspond to different *risk weights* for a rated item, the higher *risk weight* must be applied.
- 4.2E.8** **R**
- (1) If more than two credit assessments are available from *nominated ECAs* for a rated item, the two assessments generating the two lowest *risk weights* must be referred to.
 - (2) If the two lowest *risk weights* are different, the higher *risk weight* must be assigned.

(3) If the two lowest *risk weights* are the same, that *risk weight* must be assigned.

Issuer and issue credit assessment

4.2E.9 **R** Where a credit assessment exists for a specific issuing programme or facility to which the item constituting the *exposure* belongs, this credit assessment must be used to determine the *risk weight* to be assigned to that item.

4.2E.10 **R** Where no directly applicable credit assessment exists for a certain item but a general credit assessment exists for the issuer, that general credit assessment must be used where it produces either of the following:

- (1) a higher *risk weight* than would otherwise be the case;
- (2) a lower *risk weight* and the *exposure* in question ranks as equally senior or senior in all respects to senior unsecured *exposures* of that issuer, as relevant.

4.2E.11 **R** Credit assessments for issuers within a *group* cannot be used as the credit assessment of another issuer within the same *group*.

Domestic and foreign currency items

4.2E.12 **R** A credit assessment that refers to an item denominated in the borrower's domestic currency cannot be used to derive a *risk weight* for another exposure on that same borrower that is denominated in a foreign currency.

Mapping of credit assessments of nominated ECAIs to credit quality steps

4.2E.13 **R** *Exposures* for which a credit assessment by a *nominated ECAI* is available must be assigned a *credit quality step* according to the table in ■ MIPRU 4.2E.14 R.

4.2E.14 **R** Table: Exposures for which a credit assessment by a nominated ECAI is available

This table belongs to ■ MIPRU 4.2E.13 R.

		Credit Quality Step					
		1	2	3	4	5	6
Credit assessment	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below
	S & P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below

DBRS	AAA to AAL	AH to AL	BBBH to BBBL	BBH to BBL	BH to BL	CCCH and below
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