

Chapter 2

Commission Delegated Regulation (EU) No 447/2012

Article 4 Assessing that a credit rating methodology is rigorous

(1) A credit rating agency shall use and apply credit rating methodologies which:

- (a) contain clear and robust controls and processes for their developments and related approvals that allow suitable challenge;
- (b) incorporate all driving factors deemed relevant in determining creditworthiness of a rated entity or a financial instrument which shall be supported by statistical, historical experience or evidence;
- (c) consider the modelled relationship between rated entities or financial instruments of the same risk factor and risk factors to which the credit rating methodologies are sensitive;
- (d) incorporate reliable, relevant and quality related analytical models, key credit rating assumptions and criteria where these are in place.

(2) A credit rating agency shall list and provide a detailed explanation of the following points with regard to the credit rating methodologies used regarding:

- (a) each qualitative factor, including the scope of qualitative judgement for that factor;
- (b) each quantitative factor, including key variables, data sources, key assumptions, modelling and quantitative techniques.

(3) The detailed explanation referred to in paragraph 2 shall include the following:

- (a) a statement of the importance of each qualitative or quantitative factor used within that credit rating methodology including, where relevant, a description of and justification for related weightings assigned to those factors and their impact on credit ratings;
- (b) an assessment of the relationship between the key assumptions used in that credit rating methodology and the critical risk factors derived from macroeconomic or financial data; and

(c) an assessment of the relationship between the key assumptions used in credit rating methodology and the volatility of credit ratings produced by that methodology over time.

(4) A credit rating agency shall use credit rating methodologies and their associated analytical models, key credit rating assumptions and criteria that promptly incorporate findings or outcomes from an internal review or a monitoring review undertaken by one or more of the following:

(a) the credit rating agency's independent members of the board;

(b) the credit rating agency's review function;

(c) any other relevant person or committee involved in the monitoring and reviewing of credit rating methodologies.