

Finansinspektionen's regulation

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Finansinspektionen's regulations and general guidelines regarding the requirements for approval to be a credit assessment institution when applying the Capital Adequacy and Large Exposures Act (2006:1371);

FFFS 2007:2

Published
29 January 2007

decided 22 January 2007.

Finansinspektionen prescribes the following pursuant to section 32 of the Capital Adequacy and Large Exposures Ordinance (2006:1533).

Finansinspektionen also provides *general guidelines* following the respective section of the regulations.

Scope, etc.

Section 1 These regulations and general guidelines shall be applied by firms applying for approval to be a credit assessment institution in accordance with Chapter 4, section 12 of the Capital Adequacy and Large Exposures Act (2006:1371), or have received such approval.

Section 2 In its application, the firm shall submit all of the information needed for Finansinspektionen to review that the firm fulfils the requirements in sections 5–12.

General guidelines

The firm should observe the Committee of European Banking Supervisor's (CEBS) document, "Guidelines on the recognition of external credit assessment institutions".

Section 3 A firm that has been approved shall in the future inform Finansinspektionen without delay regarding significant changes to its methodology for assigning credit assessments or other conditions set out in sections 5–12.

Section 4 Approval of a credit assessment institution may refer to one or more of the following three market segments: public sector, commercial entities and structured financing (including securitisation).

The firm shall indicate the market segment(s) in which recognition is being sought.

Requirements

Objectivity

Section 5 The firm's methodology for assigning credit assessments shall be thorough, systematic, consistent, and appear reliable based on historical experience.

Independence

Section 6 The firm's methodology shall be free from political influences, economic pressures or other pressures that may influence the credit assessment.

Section 7 The methodology shall be independent and take account of

- a) ownership and organisational structure,
- b) financial resources,
- c) staffing and expertise, and
- d) governance and internal control.

To ensure the independence of the methodology, the firm shall have an independent internal audit function.

Review

Section 8 The firm shall demonstrate that its credit assessments are continuously monitored internally and that they take the economic development into consideration. A review shall take place after each incident that could affect the credit assessment, although at a minimum of once a year.

Section 9 For each relevant market segment, the firm shall show that backtesting of the assessment method has been carried out for at least one year.

The firm shall submit to Finansinspektionen information about how the requirement for continuous monitoring and review in accordance with section 8 is fulfilled. In addition, Finansinspektionen shall upon request be given access to information regarding the extent to which the credit assessment institution has had contact with the senior management of the firms it is assessing.

Transparency and disclosure

Section 10 The firm's methodology for assigning credit assessments shall be made public to enable all potential users of the information to decide whether the assessments are based on reasonable grounds.

Section 11 The firm shall ensure that its credit assessments are accessible on equal terms to any party that has a legitimate interest in them.

Credibility and market acceptance

Section 12 The firm shall demonstrate that the credit assessments are accepted on the market as credible and reliable.

Credibility may be reviewed based on, for example, the following factors:

- a) The firm's market share.
- b) Revenues generated by the firm and, more generally, its financial resources.
- c) Whether pricing is on the basis of the rating.
- d) At least two institutions use the credit assessment institution's individual credit assessment for issued bonds and/or assessment of credit risks.

These regulations and general guidelines shall enter into force on 1 February 2007.

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