



Targeted Review of Internal Models

Instructions for the preparation of rating assignment files

Request to the institution
for the rating assignment
review

Instructions for the preparation of rating assignment files

1. Introduction

1. In the context of the upcoming TRIMI(X) investigation, institutions are requested to make a selection of obligors and to fill in information for the obligors selected (according to sub-section 2) and to prepare, according to sub-sections 3 and 4, the following minimum set of information:
 - (a) Rating assignment schematic process overview;
 - (b) Rating assignment files.
2. While the rating assignment schematic process overview aims at providing a high level description of the main components of the rating assignment process at rating system level, the rating assignment files contain specific obligor characteristics; hence one file *per* each one of the selected obligors is expected to be prepared.
3. Both set of information **should be available for the assessment team at the start of the mission**.
4. Walkthroughs and interviews on the selected areas of investigation (but not necessarily limited to those) are expected to take place with institution's representatives during the on-site phase.

2. Pre-mission selection of performing obligors

5. The institution is requested to select a **sample of 10 performing obligors – RAR.PRESEL sample** – according to the following criteria:
 - (a) The obligors are processed by at least one of the PD models in the scope of the TRIMI(X) investigation;
 - (b) Top 5 obligors with highest exposure¹, of which:
 - (i) 1 obligor assigned to the best performing rating grade²;
 - (ii) 1 obligor assigned to the worst performing rating grade³;
 - (iii) 3 obligors not assigned to any of the rating grades identified in (i) and (ii);
 - (c) Top 5 obligors (not already selected in point (b)) with highest RWA⁴, of which:
 - (i) 1 obligor assigned to the best performing rating grade²;
 - (ii) 1 obligor assigned to the worst performing rating grade³;
 - (iii) 3 obligors not assigned to any of the rating grades identified in (i) and (ii).

¹ Please note that exposure values are to be considered as *per* the most recent available value, before credit risk mitigation effects and before the application of any supervisory add-on.

² Should there be no obligor in the highest rating grade, the obligor in the highest successive grade should be selected.

³ Should there be no obligor in the worst rating grade, the obligor in the worst previous grade should be selected.

⁴ Please note that RWA values are to be considered as *per* the most recent available value, after credit risk mitigation effects and before the application of any supervisory add-on.

If the scope of the TRIMI(X) includes more than one PD model and one of these PD models can be clearly identified as the one where human judgement plays a major role in the rating assignment process, only this PD model should be used to select the RAR.PRESEL sample. When this is not possible, the institution should apply criteria (b) and (c) described above considering the full scope of the TRIMI(X) (i.e. as the latter was covered by only one single model), e.g. in this case, criterion (b)(i) should be read as: “select the obligor with the highest exposure among the ones assigned to the best performing rating grade of any of the PD models under review”.

Whenever all obligors selected in the RAR.PRESEL sample are rated under the same PD model, it is however possible that during the on-site phase of the TRIMI(X), the HoM requests the institution to provide the information (according to sub-section 4) of specific characteristics of obligors rated under other PD models included in the scope of the TRIMI(X).

6. The institution is requested to fill in the information requested in the template **RAR.PRESEL** for **each one of the selected obligors**. This information should be available to the assessment team at the start of the mission.

3. Rating assignment schematic process overview

7. The institution is requested to provide a high level schematic process overview of the rating assignment process related to each one of the PD models under investigation⁵. The schematic process overview should allow a third party to understand the process by which the rating is assigned with a particular focus on:
 - (a) Steps that consist of or require judgmental considerations;
 - (b) Inputs from external data sources.
8. The schematic process overview should describe the different modules or distinct groups of information that feed as an input for the rating calculation. Whenever possible, these modules should be distinguished as (mainly) quantitative and (mainly) qualitative.
9. An illustrative example is provided in the **Annex 1** of this document. The institution is expected to provide a similar schematic process overview adapted, when necessary, to the specificities of its own internal rating assignment process. This information should be available to the assessment team at the start of the mission.

4. Rating assignment files

10. The institution is requested to prepare a minimum set of information specified in this section for each one of the selected obligors (in the RAR.PRESEL sample) as *per* the most recent available data. This information should be available to the assessment team at the start of the mission.
11. Walkthroughs and interviews on the selected areas of investigation (but not necessarily limited to those) are expected to take place with institution’s representatives during the on-site phase.

⁵ In case the schematic process overview of the rating assignment process is the same for more than one of the PD models in the scope of the TRIMI(X), please provide just one flowchart with the corresponding relevant notes and information to be considered by the assessment team.

4.1 Recognition of third party support

12. Documented evidence defining the nature of the contractual or organisational relation in case of third party ratings is being taken into account in the rating assignment of the selected obligor, should be provided.
13. In case of rating transfer being applied to the selected obligor, documented evidences should be provided that specify:
 - (a) Application of the rating transfer;
 - (b) Final PD estimate (including MoC) assigned to the exposure and the final PD estimate (including MoC) being transferred from a third party;
 - (c) Mapping methodology performed in case the obligor and the third party providing support do not share the same rating scale;
 - (d) Third party's rating;
 - (e) Date of the latest third party's rating update.

4.2 Expert inputs to the rating assignment

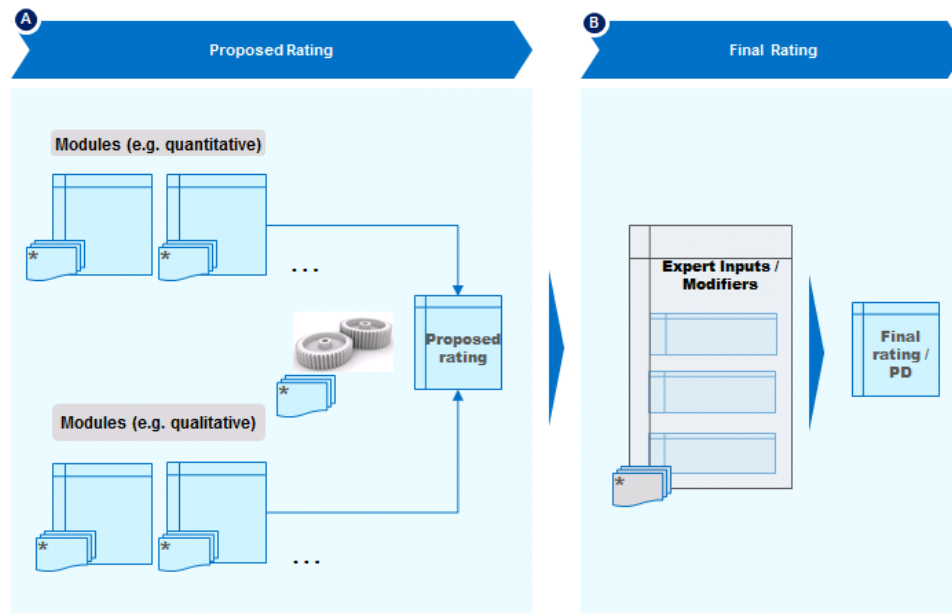
14. In case expert inputs are being applied in the rating assignment of the selected obligors, documented evidence should be provided that specify:
 - (a) Application of the expert inputs;
 - (b) Date of the last update of the expert inputs;
 - (c) Any internal/external material used in the context of expert inputs assignment;
 - (d) Application of expert inputs in the previous rating assignment.

4.3 Overrides

15. In case override(s) are being applied to the outcome of the rating assignment (or in an intermediate step) of the selected obligors, documented evidence should be provided that specify:
 - (a) Application of the override(s);
 - (b) Rationale for the override(s);
 - (c) Responsible for the override(s);
 - (d) Any internal/external information used in the context of override(s) application;
 - (e) Application of override(s) in the previous rating assignment including obligor rating grade before and after the override's application.

Annex 1. Rating assignment process schematic overview: illustrative example

16. The flowchart below presents a schematic description of the main process steps (differentiating between inputs and outputs) and quantitative/qualitative components of the rating assignment process.



* Please indicate any:

- Application of **human judgement** within the module (e.g. overrides)
- **External data sources** to evaluate the counterparty (e.g. credit bureau scores)