SIAM COMMERCIAL BANK
ธนาคารไทยพาณิชย์

Credit Special Report – BOT ECAIs & Rating Mapping

- **BoT released list of approved ECAIs**
- **National/International credit ratings mapped for Basel II's Risk Weight conversion**
- **National-scale investment grade and all short-term ratings benefit**
- **Domestic single-A assets emerged with the most advantage**
- **Rating mapping enhance Thai banks capital requirement competitiveness**

BoT's ECAIs and Credit Rating Mapping for Basel II Standardized Approach

Introduction

On February 7, the BoT released the list of approved External Credit Assessment Institutions (ECAIs) for the purpose of capital requirement for credit risk under Standardized Approach of Basel II. ECAIs include S&P, Moody's, Fitch, Fitch (Thailand) and TRIS. Credit ratings assigned by these ECAIs can be used to determine Risk Weight for rated assets held by BoT's regulated banks.

BoT allows direct mapping for investment grade assets from national to international

One of the challenging aspects in using external ratings arises when there exist both international (S&P, Moody's and Fitch) and national (Fitch (Thailand) and TRIS) scale external ratings. The BoT allows direct conversion for national scale's investment grade ratings (BBB- and above) to international scale ratings. However, non-investment grade national-scale ratings (BB+ and below) would be mapped downward by one rating category to international scale ratings (mapped to B+ and below.) *(see rating mapping table at end of report)*

Implications

Capital requirement saving resulted for investment grade asset

While national AAA is generally regarded as BBB+ on an international scale (i.e. the government of Thailand's ratings), national-scale investment-grade assets would tend to be under-weighted under this BoT scheme. For instance, a corporate borrower rated AA domestically would translate to 20% Risk Weight under Basel II, although the same borrower also simultaneously carries international single-A rating would have translated to 50% Risk Weight otherwise. That is a saving of 1.5 times on capital requirement. Similarly, the capital requirement on holding any domestic single-A assets, which may carry international-BBB rating, is reduced by half, i.e. 50% vis-à-vis 100%.

Non-investment grade asset does not get benefit

Non-investment grade assets, on the other hand - especially the domestic BB (double-B) assets, would weight equal to international B (single-B) and CCC and ones, i.e. 150%.

Single-A asset provides the best upside savings

When factoring in rating transition possibility, an investment in domestic single-A makes the most sense. An upgrade to AA or AAA would reduced the captial requirement by 150%. A downgrade to BBB would double capital requirement from the initial level. The same is not true for other rating categories.

The higher rating, the higher rating stability

Rating transition probabilities however, require sufficient rating history data. Domestic rating history may not be enough to construct such transition matrices. For the moment, investors would have to rely on their perception of transition risks and general notions that higher rated asset tends to hold its rating longer than does lower rate asset. This has been shown emperically in international rating transition studies.

Short-term rating gets direct benefit for bank papers

For short-term ratings, the BoT applies direct mapping across grades between international and national scales. As a result, banks with domestic short-term F1(tha)/T1 would also benefit from using 20% Risk Weight, instead of using their A-2/P-2/F2 which would require 50% Risk Weight otherwise.

Conclusion

Thai banks' capital requirement competitiveness enhanced

The application of BoT mapping in conclusion, would certainly benefit Thai banks to take advantage of the national scale ratings. Everything being equal, banks would prefer domestic assets with investment-grade long-term national ratings over international ratings. Meanwhile, domestic single-A provides the most advantage in rating change upside. When Thai banks apply this guideline to their capital requirements for credit risk, their competitiveness would likely be enhanced over that of foreign banks.

BoT's ECAIs and Long-Term Rating Mapping and Risk Weights for Corporate Borrowers
Source: Bank of Thailand and Basel II Accord

Borrower Grade	S&P	Moody's	Fitch	Fitch (Thailand)	TRIS	Risk Weight
1	AAA	Aaa	AAA	AAA(tha)	AAA	20%
	AA+	Aa1	AA+	AA+(tha)	AA+	
	AA	Aa2	AA	AA(tha)	AA	
	AA-	Aa3	AA-	AA-(tha)	AA-	
2	A+	A1	A+	A+(tha)	A+	50%
	A	A2	A	A(tha)	A	
	A-	A3	A-	A-(tha)	A-	
3	BBB+	Baa1	BBB+	BBB+(tha)	BBB+	100%
	BBB	Baa2	BBB	BBB(tha)	BBB	
	BBB-	Baa3	BBB-	BBB-(tha)	BBB-	
4	BB+	Ba1	BB+			100%
	BB	Ba2	BB			
	BB-	Ba3	BB-			
5	B+	B1	B+	BB+(tha)	BB+	150%
	B	B2	B	BB(tha)	BB	
	B-	B3	B-	BB-(tha)	BB-	
6	CCC+	Caa1	CCC+	B+(tha)	B+	150%
	CCC	Caa2	CCC	B(tha)	B	
	CCC-	Caa3	CCC-	B-(tha)	B-	
	CC	Ca	CC	CCC+(tha)	CCC+	
	C	C	C	CCC(tha)	CCC	
	D		D	CCC-(tha)	CCC-	
				C(tha)	CC	
				DDD(tha)	C	
				DD(tha)	D	
				D(tha)		
	NR	NR	NR	NR	NR	100%

BoT's ECAIs and Short-Term Rating Mapping and Risk Weight
Source: Bank of Thailand and Basel II Accord

Borrower Grade	S&P	Moody's	Fitch	Fitch (Thailand)	TRIS	Risk Weight
1	A-1+	P-1	F1+	F1+(tha)	T1+	20%
	A-1		F1	F1(tha)	T1	
2	A-2	P-2	F2	F2(tha)	T2	50%
3	A-3	P-3	F3	F3(tha)	T3	100%
4	Other	NP	Other	Other	Other	150%
	NR	NR	NR	NR	NR	100%

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