



Irving Fisher Committee on
Central Bank Statistics

BANK FOR INTERNATIONAL SETTLEMENTS

IFC-ECCBSO-CBRT Conference on *“Uses of Central Balance Sheet Data Offices’ information”*

Co-organised by the IFC, the European Committee of Central Balance Sheet Data Offices (ECCBSO) and the Central Bank of the Republic of Turkey (CBRT)

Özdere-İzmir, Turkey, 26 September 2016

CoCAS and the usage of CBSO Data for In-house-Credit Assessment¹

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¹ This presentation was prepared for the meeting. The views expressed are those of the authors and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

CoCAS and the usage of CBSO data for In-house Credit Assessment

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In-house Credit Assessment in the Eurosystem Collateral Framework

- Eurosystem liquidity-providing operations must be based on **adequate collateral** (*Article 18.1 of the Statute of the ESCB*)
- Types of **eligible assets**:
 - ✓ marketable assets (bonds)
 - ✓ non-marketable assets: mostly **credit claims**
- European Credit Assessment Framework (ECAAF) → maintaining high **credit quality standards**
- Four credit quality assessment sources: External Credit Assessment Institutions (ECAI), **NCB's In-house Credit Assessment Systems (ICAS)**, Internal Rating-Based (IRB) Systems of Banks, Rating Tools
- **ICAS**
 - ✓ developed and operated by (currently eight) NCBs
 - ✓ to assess credit risk of non-financial companies
 - ✓ subject to Eurosystem acceptance and validation procedure



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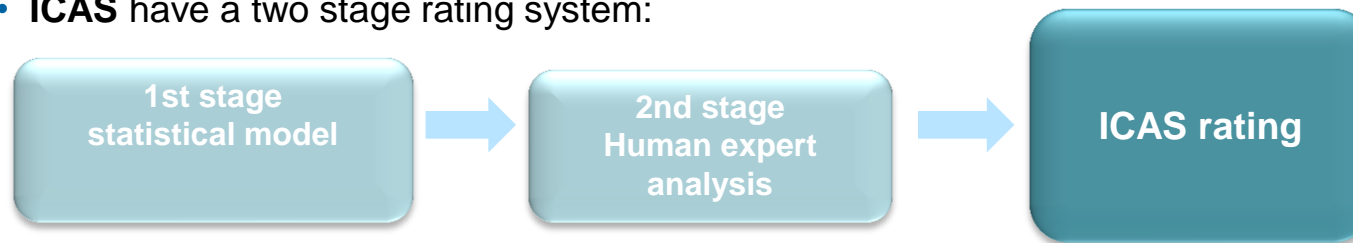
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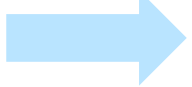
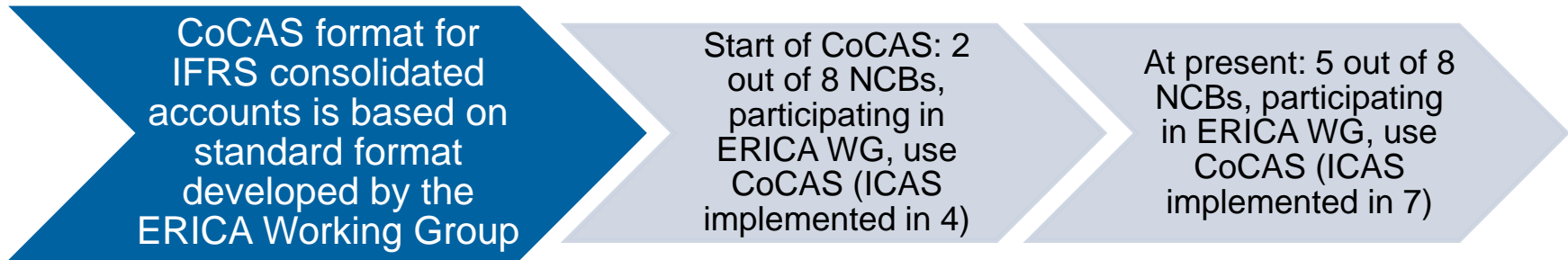
CoCAS within ICAS OeNB and Bundesbank: The need for balance sheet data

- **CoCAS** (Common Credit Assessment System)
 - ✓ jointly developed by OeNB and BBk
 - ✓ used for assessment of NGAAP accounts and IFRS consolidated accounts
- **ICAS** have a two stage rating system:



- **Statistical model** on balance sheet ratios (1st stage) for **IFRS consolidated accounts** is common for all NCBs participating in CoCAS. Generates a rating proposal
- OeNB and Bbk use common sector-specific models also for their **NGAAP financial statements**
- **Human expert analysis** (2nd stage) comprises additional qualitative and quantitative criteria which may change the rating proposal from the 1st stage
 - one of the categories being relative position of a corporation in the sector/size category
- **Need for balance sheet data in both stages**

CoCAS and CBSO data: IFRS format



- OeNB
 - Bbk
 - BdE
 - NBB
 - BdP
-

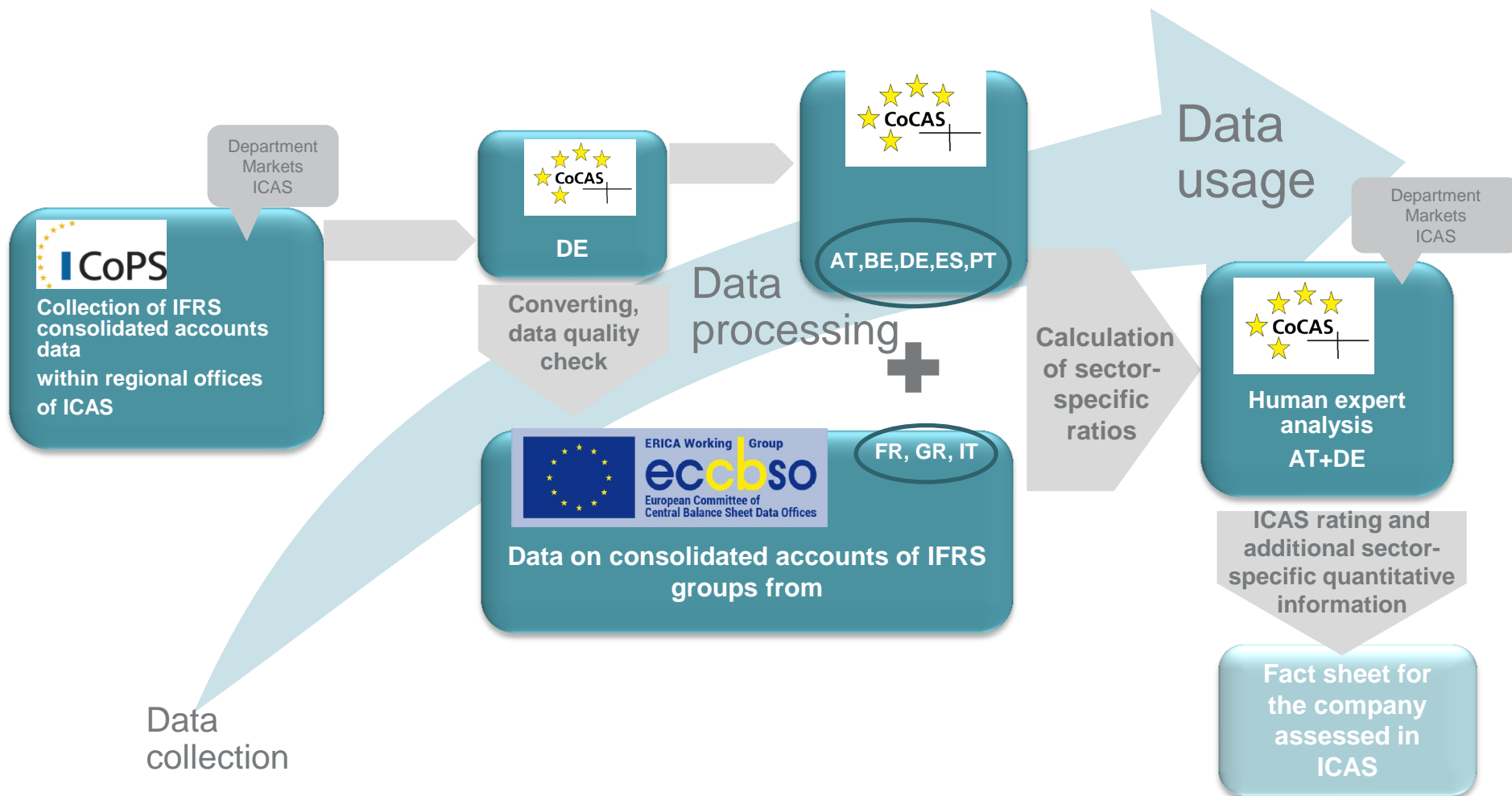
- ERICA WG and CoCAS basically use the same harmonised format

Cooperation between CoCAS and ERICA

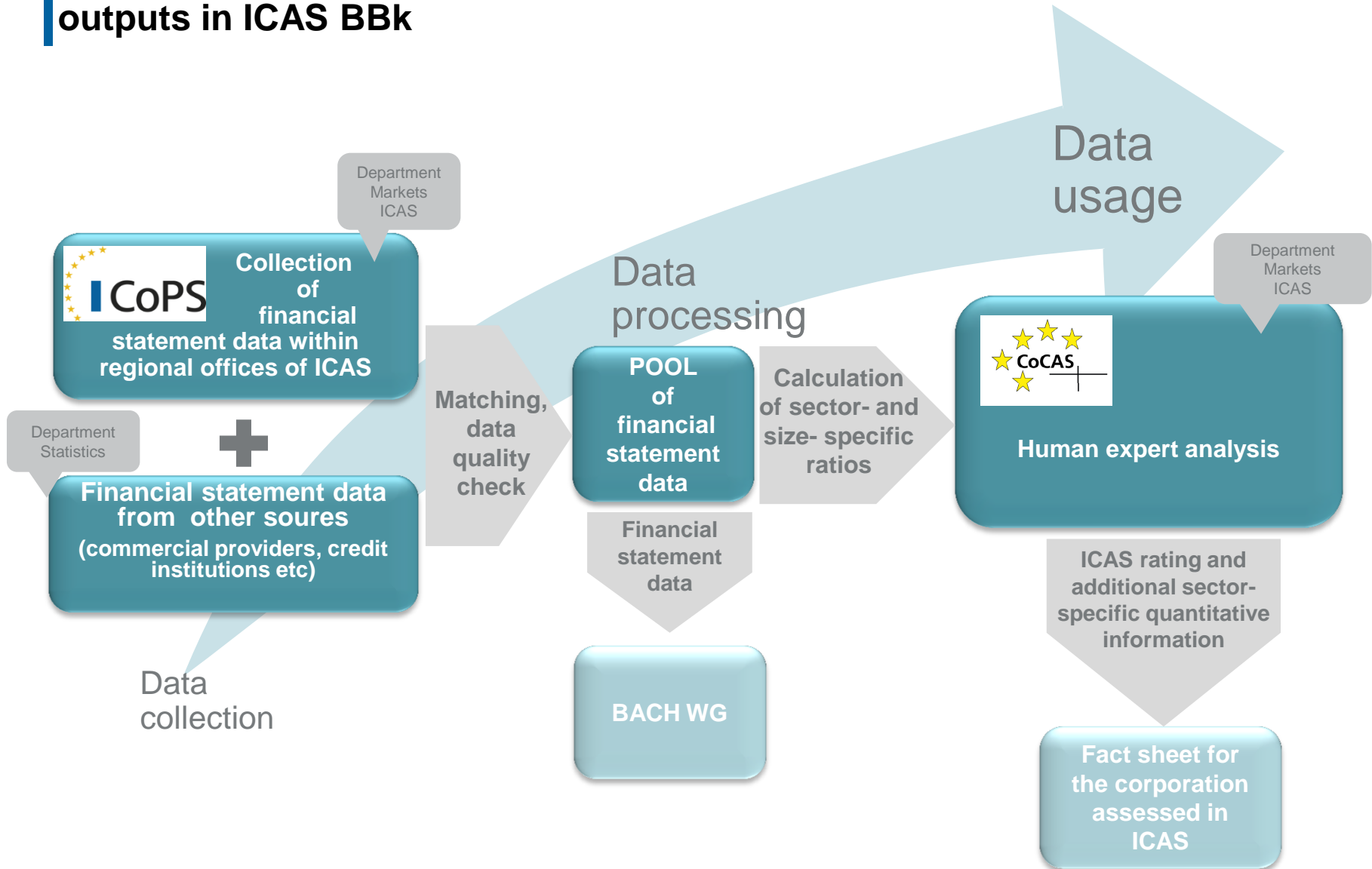


- CoCAS related issues and the work of ERICA WG are influenced by each other:
 - ✓ regular work on **harmonisation of formats**
 - ✓ ICAS relevant items included in ERICA format, ERICA relevant items implemented in CoCAS
 - ✓ **study of “real cases”** in ERICA WG allows a broader view on IFRS groups which are internationally interconnected
 - ✓ ICAS related issues (analysis of financial statements) may offer interesting topics for a **deeper cross-country research in ERICA WG**
 - ✓ Thus learning from each other...

The German example: IFRS consolidated accounts data – inputs & outputs in ICAS Bundesbank



The German example: NGAAP financial statements data – inputs & outputs in ICAS BBk



Conclusion

- **In-house credit assessment of corporations important part of Eurosystem credit assessment framework**
- **In-house credit assessment of corporations needs balance sheet data as most important input**
- **Balance sheet data needed for**
 - ✓ Statistical models
 - ✓ As part of human expert assessment stage: Peer group analysis
 - ✓ Peer group analysis as service to analysed corporations (in Bundesbank)
- **The right format of the data: ERICA and CoCAS**
- **In-house credit assessment is user of CBSO data, but can also be an important source of CBSO data (Bundesbank case)**