Russia

Annex to the Action Plan

Banking regulation

Under current banking regulation CRA ratings have a limited use, mainly, as a condition for not applying higher risk weights and applying lower provisions. Generally, credit risk capital calculation is based on export credit agencies (ECA) country risk scores according to the Simplified Standardized Approach (all credit organizations, namely 919 as of 22nd of January).

Assessment of the economic condition of credit institutions in accordance with the Bank of Russia Direction № 2005-U of 30.04.2008 "On the assessment of the economic situation of banks" is carried out by the Bank of Russia regardless of the presence / absence of the banks' ratings. CRA ratings are used only as secondary indicators in monitoring the financial condition of credit institutions. The downgrade of ratings signals for closer attention to the credit institution, including the analysis of the reasons for the downgrade.

In accordance with the Bank of Russia Regulations № 337-P of 19.06.2009 "On the procedure and criteria for assessing the performance of legal entities - the founders (participants) of the credit institution" and № 338-P of 19.06.2009 "On the procedure and criteria to assess the performance of individuals - the founders (participants) of the credit organization", CRA ratings are taken into account in the process of assessing the financial condition when deciding about the registration of credit organization and granting prior approval of the Bank of Russia.

Regulation No 254-P as of March 2004 defines that CRA ratings (investment-grade only) are used to qualify an instrument as eligible collateral to reduce loan loss provisions

Central Bank operations

Reserve management

The Bank of Russia considers, besides international credit ratings, the results of internal comparative analysis of foreign counterparties and issuers as well as the results of capital adequacy and liquidity stress-tests in the management of the assets denominated in foreign currency and precious metals. Internal comparative analysis includes the analysis of financial statements, analysis of market assessment of bank's credit quality, qualitative assessment of the probability of external support.

Refinancing operations

In assessment of the bonds, which are accepted as collateral for refinancing operations of Russian credit organizations, the Bank of Russia also takes into account such factors as liquidity, specifics of a certain bond (for instance, issuance guarantee size, information on the issuer, etc.).

The following elements are currently under development to reduce the reliance on CRA ratings:

- approaches and methodology for the assessment of 50 biggest Russian non-financial companies – borrowers of credit institutions;

- proposals for enhancement of the set of criteria for selection of organizations whose liabilities are accepted as the Bank of Russia's eligible collateral.
- comprehensive long term plan for development of internal assessment system for organizations, regions and municipalities of the Russian Federation, acting as parties liable on assets accepted as the Bank of Russia's eligible collateral.

Central counterparties

The only Russian CCP – JSCB "National Clearing Centre" (NCC) – complies for the most part with CPSS-IOSCO Principles for Financial Market Infrastructure.

Investment policy

According to NCC's Principles for investment of available cash, NCC holds its own and participants' assets only at reliable entities which are duly regulated and supervised. To limit the market risk NCC invests in assets with low volatility and high liquidity. NCC carries out regular assessments of its investment policy and makes adjustments to it, if necessary.

CRA ratings are used in the counterparty/issuer assessment framework. However, they only act as an entry criterion for the assessment process, after which counterparties are subject to thorough internal analysis by NCC, including the analysis of their financial statements, annual reports, business specificities, etc. NCC's investment policy does not presuppose mandatory disposal of assets whose credit ratings were downgraded below the allowed minimum.

Collateral

NCC accepts as collateral only a limited number of securities from the Bank of Russia Lombard List with low risks (212 for securities market, 15 for derivatives market, as of January 2014) and cash in two currencies: ruble and US dollar. The haircut for securities market varies from 4% to 75% and is relatively high on average. The haircut for derivatives market is stable and set at the level of 30%.

The Lombard List can be considered as a countercyclical tool because it is more likely to be expanded by the Bank of Russia during periods of stress (during 2008-2009 crisis the Lombard List was widened to include stocks and haircuts for bonds were diminished).

Margins

Initial margin model of NCC is risk-based and takes into account market risk, liquidity risk and credit risk. The guarantee system calculates orders and positions' collateral online, which allows to minimize the risk of default on obligations. Variation margin is collected daily.

Alongside, some of NCC's regulations help to address the procyclicality issue. In particular, standardized OTC derivatives market has a margin floor. All participants are obliged to make an initial payment of 10 million rubles to the Guarantee Fund, besides the initial margin. These funds can be used by NCC if a counterparty defaults on its obligations.