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Addendum 2 to the CRI Technical Report (Version: 2013, Update 2b)

This document updates the Technical Report (Version: 2013, Update 2b) and details (1) the change in financial statement priority rules for Taiwan and (2) a replacement for the 3 month interest rate in Russia. These changes have been implemented as of the probabilities of default (PD) released on 16th of November.

I. Changes to financial statement priority rule

As documented in Subsection 3.1 of Technical Report Version: 2013, update 2b, data provided by Bloomberg's Back Office Product can include numerous versions of financial statements within the same period. If there are multiple financial statements with the same period end, priority rules must be followed in order to determine which to use. The formulation and implementation of these rules are major challenges and areas of continuing development.

In general, the first rule is to prioritize by consolidated/unconsolidated status. This status is relevant only to firms in India, Japan, South Korea and Taiwan, so this rule is only relevant in those economies. Most firms in these economies issue unconsolidated financial statements more frequently than consolidated ones, so these are given higher priority. This simple prioritization can, however, lead to cases where the financial statements used switch from consolidated statements to unconsolidated statements and back again. More specifically, in Taiwan, where corporate structures are biased toward large holding companies, the effect of this switching means that the DTD calculation is not meaningful for these holding companies. Therefore, as of November 2013 calibration, in Taiwan, if a company has released at least one consolidated FS over the last 12 months, all unconsolidated FS will be ignored. A similar treatment was implemented for South Korea in the October 2013 calibration.

II. 3 Month interest rate Russia

We have identified that a more appropriate 3 month interest rate is available for Russia. Henceforth, as of November 2013 calibration, the MosPrime rate is used as the 3 month i-rate for Russia; as this i-rate is only available as of April 2005, we continue to use the Russian Federation Interbank 31–90 Day for earlier periods.