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Addendum 3 to the CRI Technical Report (Version: 2014, Update 1)

This document updates the Technical Report (Version: 2014, Update 1) and details (1) a change to the priority rules of financial statements (FS) for countries that have adopted International Financial Reporting Standards (IFRS) as a mandatory accounting standard and (2) a replacement for the 3 month and 1 year interest rate in India. These changes have been implemented for probabilities of default (PDs) and the Actuarial Spread (AS) starting from 18th of October.

I. Change to financial statement priority rules

As documented in Subsection 3.1 of Technical Report Version: 2014, update 1, data provided by Bloomberg Back Office Products can include numerous versions of FS for the same period. If there are multiple FS under different accounting standards with the same period end, a priority rule must be followed to determine which one to use. Our old prioritization sets a higher priority to FS under generally accepted accounting principles (GAAP) than to FS under IFRS. However, with more and more countries adopting IFRS as a mandatory accounting standard, it makes sense to revise the priority rule. For example, IFRS has become mandatory in the European Union since 1 January 2005, and countries like Malaysia and Sri Lanka have adopted IFRS since 2012.

The revised rule is as follows. For the countries with mandatory IFRS adoption, FS under IFRS are now given the highest priority after their respective mandatory adoption dates. Before the mandatory adoption date and for countries without mandatory IFRS adoption, FS under GAAP will continue to have the highest priority.

This change in priority rule only affects firms that provide FS under different accounting standards within the same fiscal period. The implemented change in data retrieval does not materially affect the outcome of monthly calibration or daily update. For example, the accuracy ratio (AR) for different calibration groups before and after this priority rule change remains almost the same.

II. Replacement 3 month and 1 year interest rate India

As of 20 May 2013 neither the India T-Bill secondary 1 year rate nor the India T-Bill secondary 91 day rate is available for India. Henceforth, as of October 2014 calibration, the India Treasury Bill 3 Month rate is used as the 3 month i-rate and the India Treasury Bond 1 Year as the 1 year i-rate for India. As these i-rates are not available for the full history, we continue to use the old i-rates for periods before 20 May 2013.