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Addendum 2 to the CRI Technical Report (Version: 2014, Update 1)

This document updates the Technical Report (Version: 2014, Update 1) and details (1) a further exclusion of OTC traded companies and (2) a replacement for the stock index in Romania. This change has been implemented for the probabilities of default (PD) and actuarial spreads (AS) starting on 16th of August.

I. Further exclusion OTC traded companies

To be included in the CRI coverage, a company needs to have common equity traded on a stock exchange. For example, in the US firms traded on OTC markets or Pink Sheets are not considered as exchange listed and are not included in calibration or in the reporting of the PD forecast. Many of these firms are small start-up firms or financially distressed. Including this large group of companies could skew the calibration and aggregate results. The TSX Venture Exchange in Canada also contains only small or start-up firms, so firms listed there are also excluded. The challenge for handling firms outside the US and Canada is that data for properly classifying firms is difficult to obtain. So for all economies other than the US and Canada, there is continuing work being done by the CRI team to exclude firms that are not listed on major exchanges within a country. As of the calibration of August 2014, in addition to the OTC traded firms in NAMR, four other OTC markets are also automatically screened out. These include Gre Tai Securities Markets for Taiwan¹, Hanoi UPCoM for Vietnam, OTC-X BEKB for Switzerland and Soma for Brazil.

This newly installed screening removes around 1,000 companies from the CRI coverage. The historical coverage of CRI remains well over 60,000 firms, however, and out of which around 32,000 companies are currently active. It should be noted that calibration parameters and accuracy ratios are only marginally affected by the removal of these OTC firms.

¹ While the CRI Technical Report (Version:2014, Update 1) mentions that companies traded on GreTai Securities Market are excluded, it should be noted that the exclusion was not done in a proper way and will only take effect as of the August 2014 calibration. Furthermore it should be noted that the CRI Technical Report (Version: 2014, Update 1) erroneously states that companies traded on Singapore's Catalist are excluded. Companies traded on this board are still being included under our coverage.

II. Stock Index Romania

The Bucharest Stock Exchange Index Committee discontinued the BET-C index and replaced it with the BET PLUS Index on June 23, 2014. With this change, the earlier BET-C Index values are no longer published. As we cannot use the new BET PLUS Index due to its limited data history, we use the BET Index (a different Index with 10 most liquid listed stocks vs. 37 most liquid stocks in the BET PLUS Index) as of August 2014 calibration. We will likely revert to the broader BET PLUS Index after it has a minimum 1-year data history, which will be in June 2015.