

SESSION III

14.20-15.20

Session III: Data Collaboration and Innovative RegTech solutions. Presentations:

“The Nordic bond market – development, transparency and credit ratings data” by Carl Olsson, Chief Compliance Officer, Nordic Credit Rating, Norway
„KYC Utility and other innovations for AML“ by Jānis Timermanis, CEO, Credit Information Bureau, Latvia

Panel discussion:

Carl Olsson, Chief Compliance Officer, Nordic Credit Rating, Norway
Silje Gulbrandsen, Co-Lead, Startup v-team, Microsoft Norway
Jānis Timermanis, CEO, Credit Information Bureau, Latvia
Rishikesh Deole, Head of Digital, Banking Financial Services & Insurance - Europe North West, TATA Consultancy Services Limited

Moderator: Renāte Strazdiņa, GM, Microsoft Baltic

SESSION III: DATA COLLABORATION AND INNOVATIVE REGTECH SOLUTIONS

“The Nordic bond market – development, transparency and credit ratings data”

CARL OLSSON

Chief Compliance Officer,
Nordic Credit Rating,
Norway





The Nordic bond market – development, transparency and credit rating data

CARL OLSSON

CCO, NORDIC CREDIT RATING

12 JUNE 2019



Agenda

Credit ratings intro and the Nordic bond market

Nordic Credit Rating

Credit rating data

What are ratings?

A CREDIT RATING IS

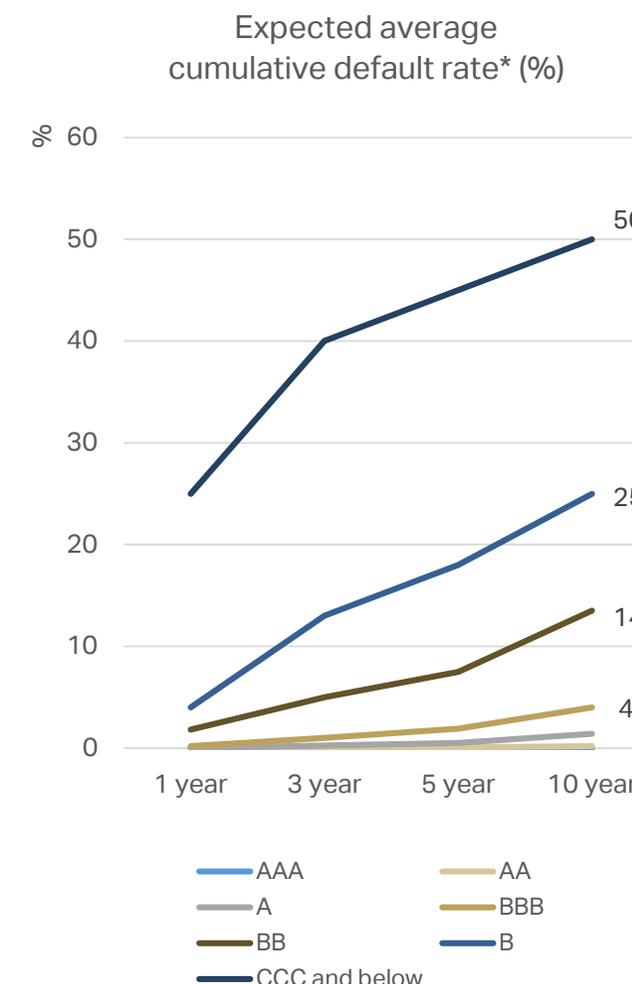
- A measure of the capacity and willingness of a borrower to meet its debt obligations
- An unbiased opinion about credit risk
 - Presented on a relative ranking
- Based on qualitative and quantitative analysis
- Produced by an analytical team and determined in a committee
- Monitored on an ongoing basis

A CREDIT RATING IS NOT

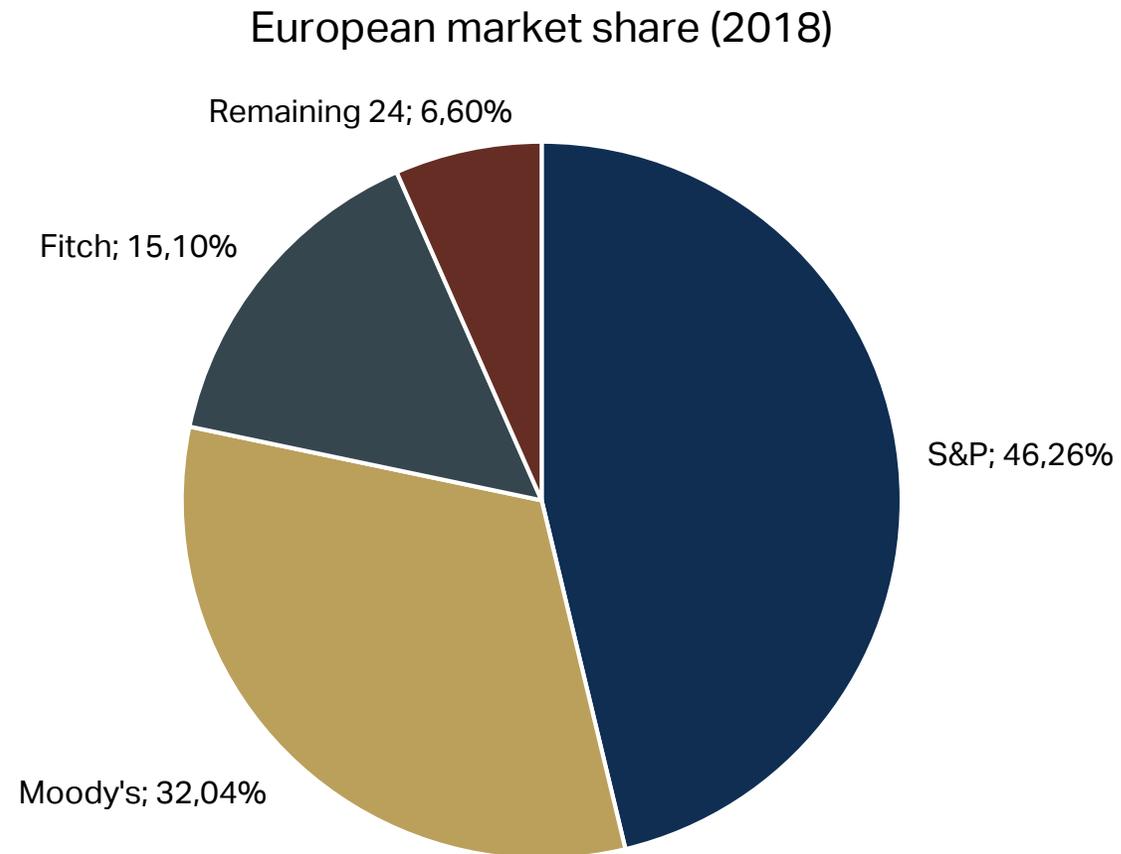
- A recommendation to buy, sell, or hold a security
- An absolute measure of default probability
 - Default rates will move with the economic cycle
- An indication of the suitability of a specific instrument for an investor
- An assessment of whether a company is "good" or "bad"
- An audit

A relative ranking of credit risk

	CATEGORY	DEFINITION
Investment grade	AAA	'AAA' rated entities demonstrate an the highest credit quality and lowest expectation of default risk
	AA	'AA' rated entities demonstrate very high credit quality with a very low default risk
	A	'A' rated entities demonstrate high credit quality with a low default risk
	BBB	'BBB' rated entities demonstrate medium credit quality with a moderate default risk
Non-investment grade	BB	'BB' rated entities demonstrate speculative credit quality with a slightly increased default risk
	B	'B' rated entities demonstrate highly speculative quality with an increased default risk
	CCC	'CCC' entities demonstrate very low credit quality with a high default risk
	CC	'CC' rated entities demonstrate very low credit quality and an event of default is very likely
	C	'C' rated entities demonstrate the lowest credit quality and an event of default is imminent
	D/SD	'D' rated entities have defaulted, as defined by NCR. 'SD' (selective default) rated entities have only defaulted on certain debt obligations.
	Plus (+) and minus (-)	Rating categories from AA to B are modified by a plus (+) or a minus (-), where required, in order to show their relative position within the rating category



The CRA industry – an oligopolistic market



Main users of ratings

Issuers

- Increase transparency of credit quality
- Access larger investor pool
- Pressure pricing of new issues

Intermediaries

- Smoothen origination process
- Improve initial pricing
- Benchmark for advisors

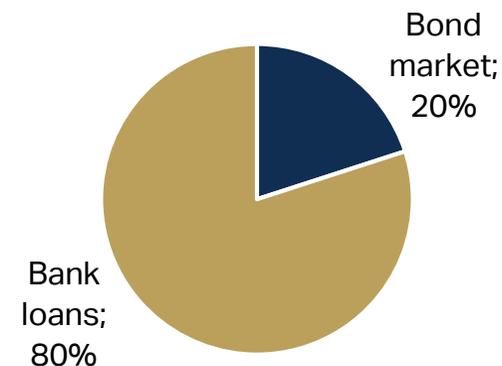
Investors

- Complement in-house analysis
- Regulatory effect
- Risk and compliance tool
- Commercial benefits

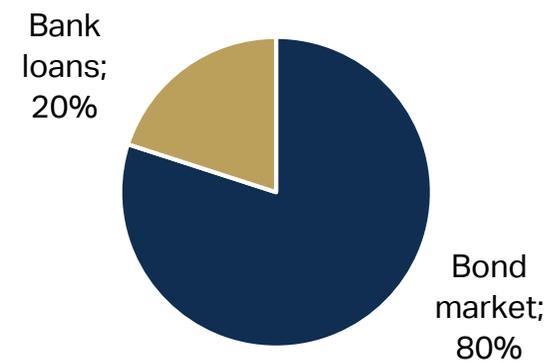
Bond Market (and Ratings) Growth Drivers

- Continued bank disintermediation
- Banks less willing to use balance sheet
- Willingness among corporates to diversify sources of funding
- Not be overly reliant on banks
- Access longer maturities
- More relaxed terms vs. bank loans
- Increased investor interest
- Also among retail

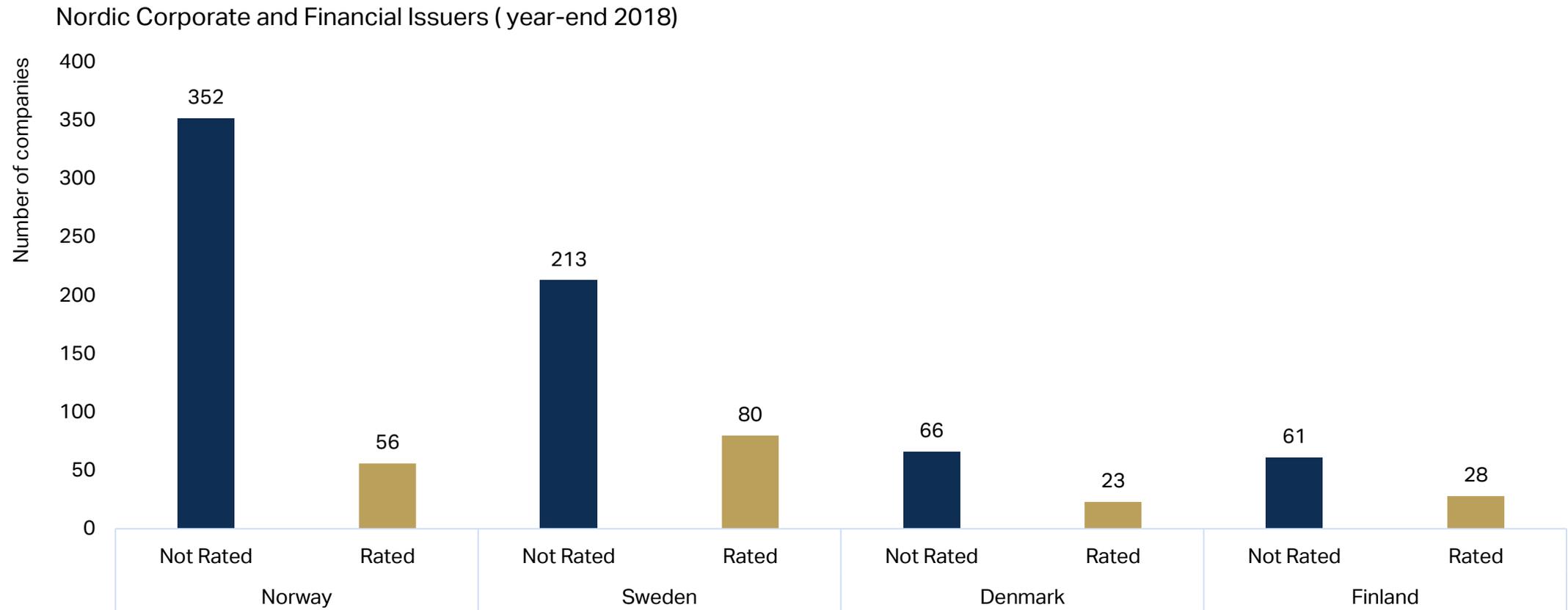
Nordic corporate funding



U.S. corporate funding



Most issuers in the Nordic region are still not rated



Source: Stamdata

Example of unrated issuers



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Credit ratings intro and the Nordic bond market
Nordic Credit Rating
Credit rating data

Background

- Established by Nordic institutions as the local credit rating agency
- Fill the gap left after shadow ratings
- Act as a financial infrastructure company in the Nordics
- Lower the threshold for banks and corporates to obtain a rating (workload and costs)
- Provide excellent research based on local insights



Markets

S&P and Moody's Are About to Be Joined by a Nordic Game Changer

By [Peter Levring](#) and [Jonas O. Beroman](#)

July 29, 2018, 12:00 PM GMT+2 Updated on July 30, 2018, 1:00 AM GMT+2

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In this article

1 SEC

For decades, companies have relied on S&P Global Ratings, Moody's Investors Service or Fitch Ratings for a verdict on their financial health if they wanted to tap the bond market.

But that domination is being challenged. In the Nordic region, where mortgage issuers have in previous years had a fraught relationship with some of the major ratings companies, a new firm has just won approval to provide corporate credit assessments.

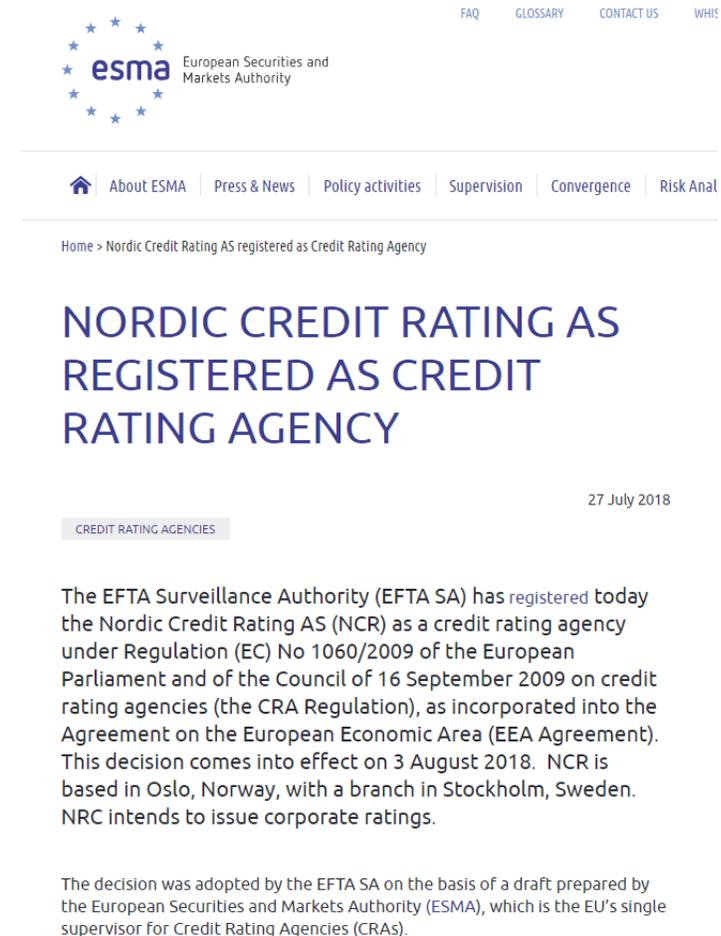
Nordic Credit Ratings (NCR) will be granted a license to operate from Aug. 3, the European Securities and Markets Authority [said](#) on Friday.

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NCR registered with ESMA

- Registered as one of 28 CRAs in Europe
- Jointly regulated by ESMA and EFTA Surveillance Authority (due to Norwegian domicile)
- ESMA registration = ECAI recognition
 - NCR's scale to be mapped by EBA to define its credit quality steps
 - Full effect under capital requirements regulation and Solvency 2
- ESMA encourages competition among CRAs
 - Article 8d states that issuers have to consider appointing a CRA with no more than 10% market share if using two CRAs



Ratings process

- Process normally takes 3-4 weeks from initiation to delivery
- Management meeting 3-4 hours (normally at the issuer's HQ)
- Confidential rating process between the issuer and NCR
- Following committee feedback, issuer has three options
 - Publish rating
 - Keep rating confidential (and publish later or not at all)
 - Discontinue relationship
- Preliminary rating
 - Takes into account an envisioned capital structure and is finalized after closure of the transaction



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Published ratings

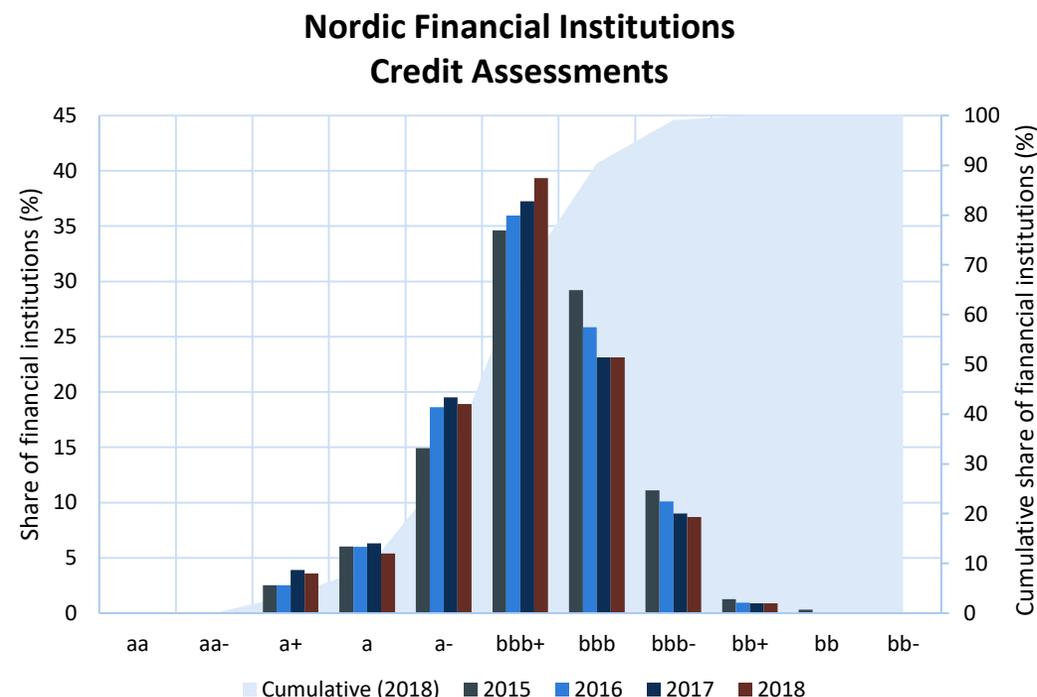
Date	Entity	Segment	Rating	Outlook
15 May 2019	Resurs Bank AB	Financial	BBB-	Stable
14 May 2019	Fastighets AB Stenvalvet	Real Estate	BBB+	Stable
13 Feb. 2019	Kredittforeningen for Sparebanker	Financial	A-	Stable
9 Jan. 2019	Sparbanken Västra Mälardalen	Financial	BBB+	Stable
4 Dec. 2018	Sparbanken Rekarne	Financial	A-	Stable
28 Nov. 2018	SpareBank 1 Østfold Akershus	Financial	A	Stable
25 Oct. 2018	Vacse AB	Real Estate	BBB+	Stable

- All published ratings are solicited, i.e. ordered and paid for by the issuer
 - NCR has strict commercial/analytical separation to avoid conflicts of interest
 - Do not intend to publish any unsolicited ratings
- All ratings are live, actively monitored and could change at any time if there is a change in credit quality

	RATING SCALE
Investment grade	AAA
	AA+
	AA
	AA-
	A+
	A
	A-
	BBB+
	BBB
	BBB-
Non-investment grade	BB+
	BB
	BB-
	B+
	B
	B-
	CCC
	CC
	C
	D/SD

Credit Assessments – Financial Institutions

- Nearly 300 Nordic banks based on consolidated year-end figures
- Simplified model outcomes and assumptions without analytical judgement, adjustments or notching for ownership support
- 35% of banks with credit assessments of a- or higher
- Expectations that most credit assessments are +/- one notch from actual rating outcomes (excluding potential ownership support)



For general estimation of criteria outcomes, no bank-specific credit analysis or adjustment for ownership support or similar credit support. Based on nearly 300 Nordic banks' end-year financial data and a point-in-time, top-down analysis.

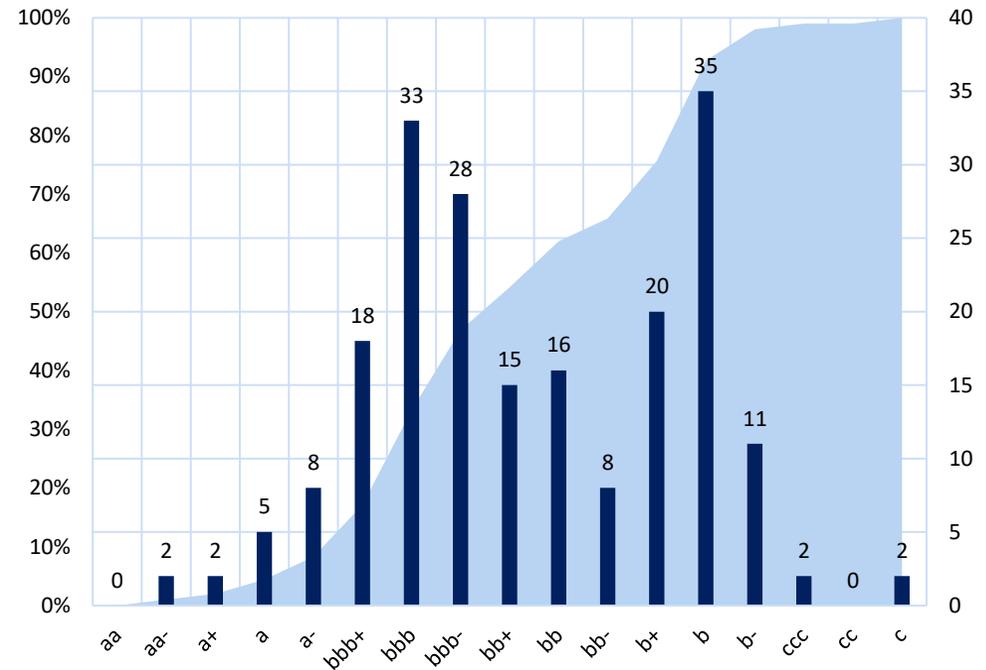
Credit Assessments – Corporates

- More than 200 Nordic corporates
- Simplified model outcomes and assumptions

Sectors analysed

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
- Health Care
- Pulp, Paper & Packaging
- Information Technology
- Telecommunication Services
- Utilities
- Real Estate

Credit Assessment



Based on more than 200 Nordic companies' end 2018 key financial data and a point-in-time, top-down analysis. All figures are for consolidated entities. A credit assessment is an indicator of NCR's view of credit quality. It reflects our general views of credit risk but does not take all factors into account which are analysed for a credit rating

Disclaimer

If you have questions or comments about our policies, please contact us at: compliance@nordiccreditrating.com

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SESSION III: DATA COLLABORATION AND INNOVATIVE REGTECH SOLUTIONS

„KYC Utility and other innovations for AML“

JĀNIS TIMERMANIS

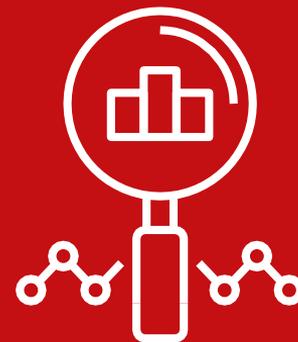
CEO, Credit Information Bureau, Latvia



KYC Utility and other innovations for AML

Janis Timermanis

CEO Credit information bureau, Latvia



±100

Employees in
Baltic countries

KIB shareholders are
financial institutions
(74%) and
Creditinfo Group
(26%)

33

Credit Bureaus worldwide

Our mission is to
provide **intelligent
information** for
individuals and
companies to
**facilitate access to
finance.**



Since

1997

Creditinfo has been among
the fastest growing
companies in the field of
credit risk management

Scope of customer due-diligence for obliged entities

Customer on-boarding and monitoring dimensions

Natural person identification & verification Natural person	Legal person identification Legal person	Beneficial owner verification Beneficial owners (natural persons) of legal person	Suppliers, Customers & Partners Legal person	Politically Exposed Person verification Natural person Legal person	Funds & Wealth verification Natural person Legal person	Sanctions Natural person Legal person
ID code(s) of issuer country(ies) incl life-cycle Name(s) incl life-cycle Birth date & birth country ID document(s) incl life-cycle e-residency (non-residents of Estonia) Citizenship facts	Business name & legal form Registry code or registration number of issuer country Board & Council Members, representatives & authorized persons Addresses & other communication details Business activities	Beneficial Owners & Family tree (via which BO is defined) Cross-referenced to Beneficial Owners declared in State Registers Ownership & Controlling structure of legal person Direct owners of legal person (natural & legal persons)	Suppliers & Customers Subsidiaries Key partners (specified in Financial Reports)	PEP register incl PEP institutions & high rank positions PEP family member register PEP closed associate register PEP Legal Entities register Foreign PEP, foreign PEP family member & close associate	Salary, dividends Assets in Credit Institutions Financial liabilities Assets in real estate Stocks in owned companies Company key financial & non-financial ratios, incl ratios of owned companies Key ratios of Beneficial Owner related Companies	International sanctions Local sanctions Sectoral sanctions

KYC Utility shares information between obliged entities for AML compliance purposes

Shared KYC Utility

Several or many obliged entities

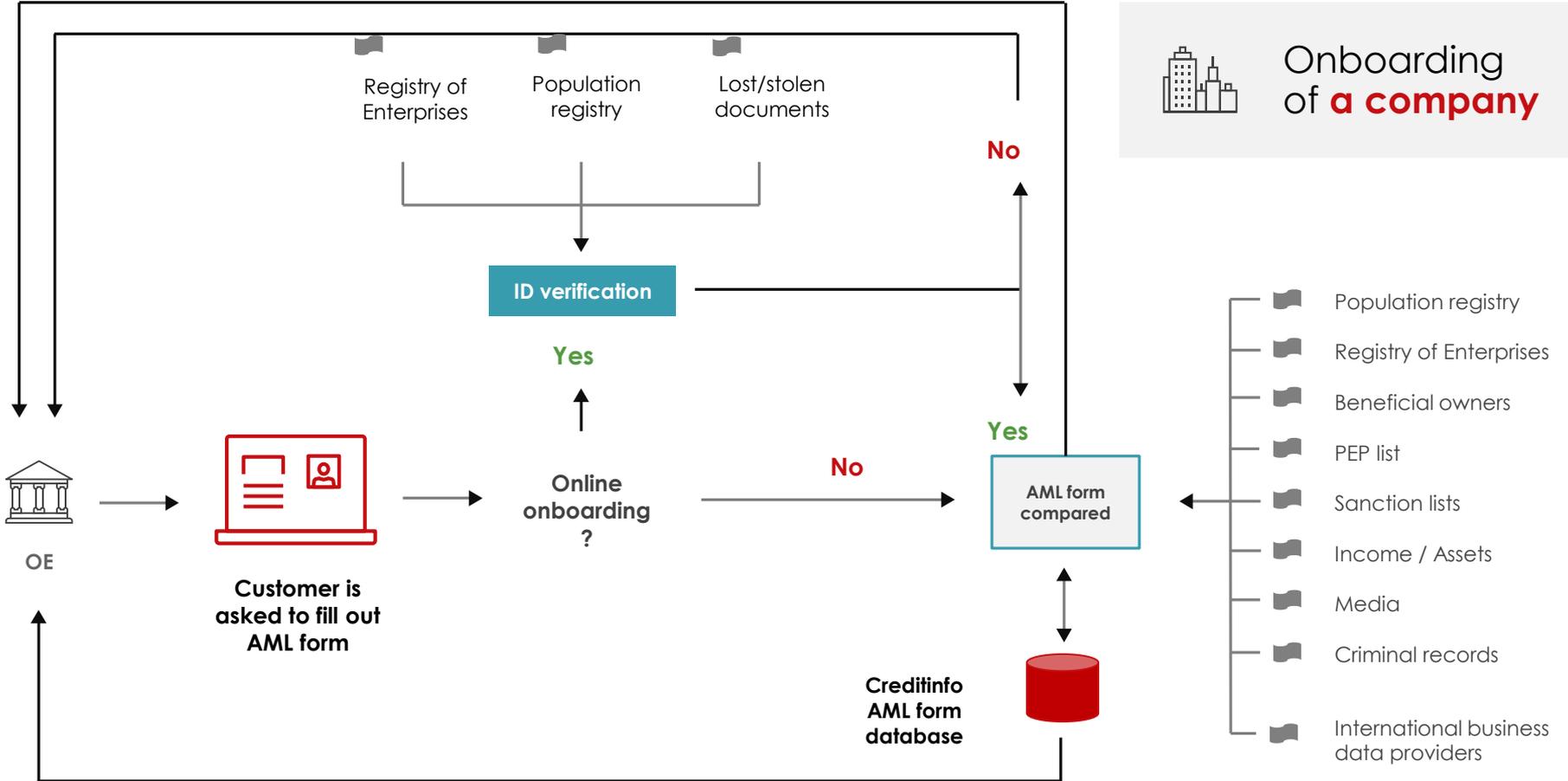
- Share data gathered from/about their clients like credit bureaus do
- Get data from public registries
- Cross-referencing data to find predefined irregularities

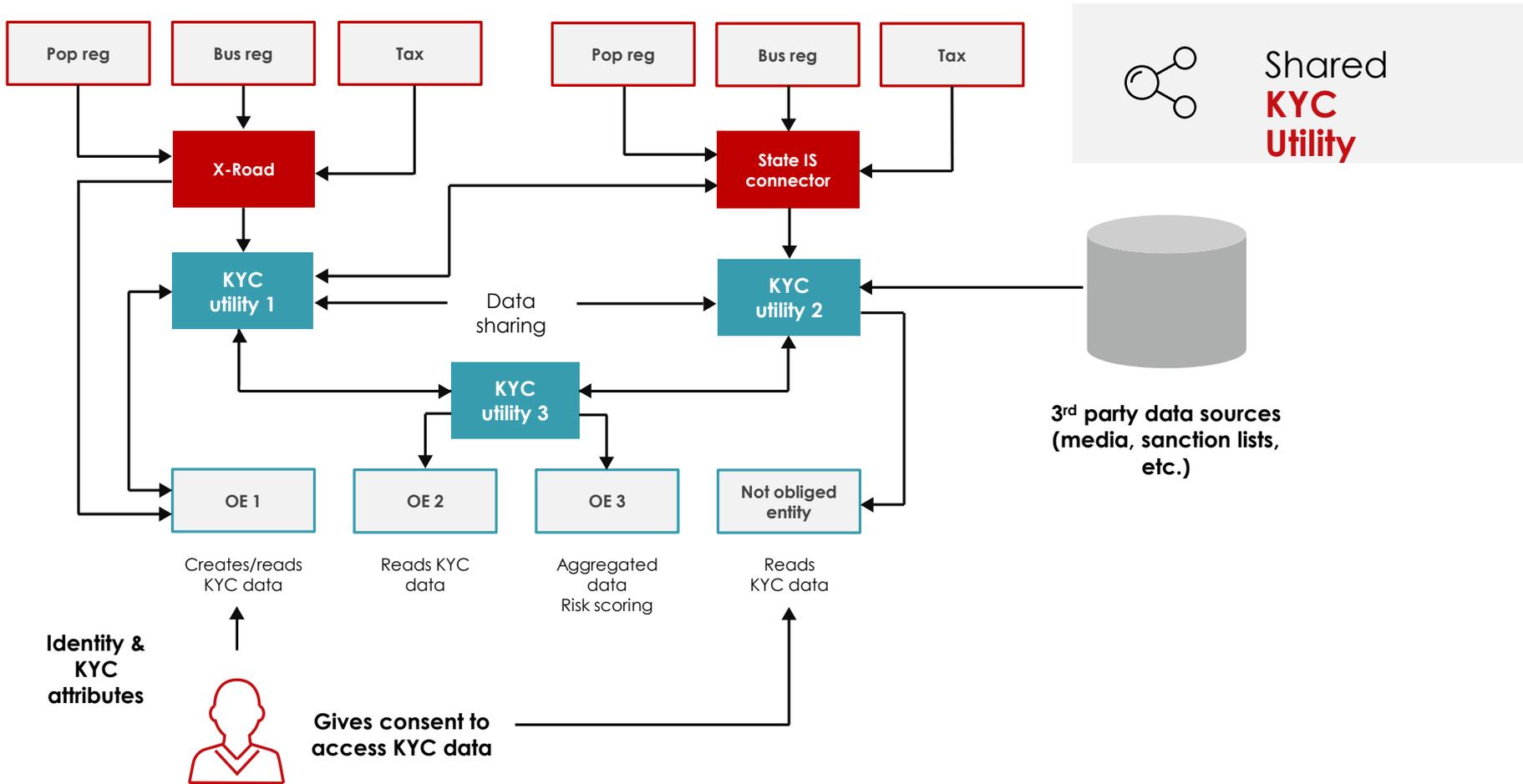
Relies on everyone's participation

- Not necessarily banking only
 - Obligation vs free participation
 - Bigger help smaller but all must commit
 - Full vs. limited access
-



Onboarding of a company





PEP register design

Scope of register

- A. PEP institutions and positions register
- B. Primary PEP register
- C. Register of family members of PEP
- D. Register of close associates of PEP
- E. Register of legal persons with beneficial ownership or joint beneficial ownership by any person in B;C&D
- F. Continuous monitoring and update of A. to E

1. Creation & management of registers on PEP & local PEP, Family Members of PEP, Close Associates of PEP

Register of Public Institutions & State Enterprises & their high rank positions, incl. internal org. structure

1. Domestic Public Authorities & Institutions in Public Law, State Enterprises, international organizations in local country
2. EU Institutions & high rank positions
3. Public Institutions of European Economic Area & high rank positions
4. International Organizations in foreign countries & high rank positions

Register of Local Politically Exposed Persons with prominent public functions:

1. Domestic Governmental & public authorities, state enterprises, international organizations in local country
2. EU Institutions
3. Public Institutions of European Economic Area
4. International Organizations in foreign countries

Register of Local Family Members of Local Politically Exposed Persons

1. Spouse of person considered to be equivalent to a spouse
2. Child
3. Spouse of Child or person considered to be equivalent to a spouse of child
4. Parent of PEP

Register of close Associate of Politically Exposed Person:

1. Beneficial owner or joint beneficial ownership of legal person
2. Sole beneficial owner of legal entity which is known to have been set up for de facto benefit of a PEP

2. Reporting of Private Person status of PEP, Family Member of PEP, Close Associate of PEP, including by roles which individual has in relation with Legal Person

3. Monitoring of PEPs, PEP Family Members, Close Associates of PEPs and Reporting on Changes

Institution benefits

Consolidates information from multiple local, foreign, global sources

Increased efficiency and quality of AML compliance for Institutions who are users of shared KYC register service

Decreased AML risks on the country and regional level

Monitors changes in Customer AML form via shared KYC service by all the Institutions that have the Person in their Customer portfolio.

Distributes Person's KYC data changes to all obliged entities that have Person in their Customer portfolio

Customer benefits

One solution for customers to create and sign his/ her KYC form

One source for updating and sharing KYC data with all obliged entities

One place to know his/her last signed KYC and changed KYC data via which the Institutions know him/her as unique Customer, representative of the Customer, related Person of the Customer of the Institution.

IT – No problem

Legal Framework / Data – Work to do



PANEL DISCUSSION



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RENĀTE STRAZDIŅA

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15.20-15.30

CLOSING



THANK YOU

