Rating Properties and their Implications for Basel II-Capital

Dr. Robert Rauhmeier
Riskcontrolling & Riskmanagement, Methods and Modelling, KfW-Bankengruppe
Phone: ++49 (0) 69 7431 3212, Email: robert.rauhmeier@kfw.de

Dr. Harald Scheule
RISConsulting LLC
Phone: ++1 617 372 5303, Email: hscheule@risconsulting.com

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Abstract

The article “Rating Properties and their Implication on Basel II-Capital” with its empirical analysis presents new insights on the verification of ratings. Within a consistent framework the basic properties Association, Calibration, Discrimination and Refinement of rating forecasts are defined and measures derived. It is shown that Refinement has an important influence on the Basel II capital since, ceteris paribus, an increase in Refinement leads to a lower average capital requirement.