Banking - Panama

New regulation issued enforcing mandatory credit rating reviews for banks

Contributed by **Arias Fabrega & Fabrega**

August 06 2010

Author

Rodrigo Cardoze

The Superintendency of Banks of Panama (SBP) recently adopted an agreement(1) obliging all general and international licensed banks in Panama to submit to reviews by credit rating agencies. Only agencies which comply with the fundamentals of the code of conduct for credit-rating agencies set forth by the International Organisation of Securities Commissions are acceptable for the purposes of compliance with the agreement.

Banks may opt for review by either international or local credit rating agencies, or both. Nonetheless, banks with operations outside of Panama, but whose principal and original regulator is the SBP, must obtain an international credit rating. The agreement defines a 'local rating' as one comprising only valuations and risk comparisons within one country. An international rating is one that compares risk among entities of different countries, including sovereign risk.

Banks can choose the credit rating agency, but this choice must be pre-approved by the SBP before any formal engagement decision is made. Banks that opt for local ratings must ensure that their engagement contracts are approved by the SBP and contain certain mandatory terms, which include timeframes for the initial review and yearly updates. In addition, the methodology used by the credit rating agency for the review must be submitted to the SBP for approval.

Furthermore, the analyst or team of analysts conducting the reviews for a particular bank must be rotated at least every five years, so that no person or team reviews the same bank for a longer period.

Finally, the agreement requires that the rating obtained be published once in a local newspaper.

For further information on this topic please contact Rodrigo Cardoze at Arias Fabrega & Fabrega by telephone (+507 205 7000), fax (+507 205 7001) or email (rcardoze@arifa.com).

Endnotes

(1) No 002-2010.