



Athens, September 30, 2005

ICAP Response to CEBS Consultation Paper on the Recognition of External Credit Assessment Institutions (ECAIs)

ICAP takes this opportunity to comment on CEBS Consultation Paper on the recognition of External Credit Assessment Institutions (ECAIs) after the invitation of the Committee of European Banking Supervisors.

Short company profile

ICAP constitutes the largest business information provider and consultancy firm in Greece for the last 41 years. Its shareholders include Greece's two of the top five credit institutions and France's credit export insurance organization, COFACE Group. With an annual turnover of 20 million euro, and 300 employees, ICAP holds an outstanding market share in the Greek financial sector providing services and products to the majority of Greek credit institutions.

For the last decade, ICAP expanded its businesses in the credit assessment industry providing credit information and unsolicited credit ratings. In light of the Basel reform, ICAP undertook the project to meet the requirements to become an eligible External Credit Assessment Institution (ECAI) under the revised regulatory framework.



Answers to questions

Question 1: If you are an institution or an ECAI, how do you envisage using the proposed recognition process, in particular in cases where applications for the same ECAI are submitted in more than one Member State at the same time?

1) The framework of the application process provides two possible ways for the initiation of the recognition process:

- a) application in which the ECAI has to demonstrate that at least one institution intends to use its credit assessments, and
- b) application of an institution, which already uses or intends to use the ECAI's credit assessments, on behalf of the ECAI.

We consider this framework to be somewhat general and it would be helpful to clarify how the following situations, which may rise in one member state, should be dealt with:

- One or more institutions following the Standardized Approach decide to move towards the Internal Ratings Based Approach. Will the ECAI lose its certification in such a case?
- Institutions do not wish to adopt the Standardized Approach. What will the recognition process of potential ECAIs be in such cases?

Therefore we propose that the application of an ECAI should not necessarily include a reference to an institution that intends to use its credit assessments for risk-weighting purposes. The application should also include references to other organizations and companies that use the ECAI ratings for risk management purposes.

2) We recognize the intention of CEBS and the competent authorities to ensure the independence of the ECAI of possible pressures by institutions that are its shareholders (page 7, paragraph 14).

However, we consider that institutions should be given the right to use credit assessments of their subsidiary ECAIs for risk-weighting purposes, otherwise:

- Institutions will be deprived of the right to adopt the Standardized Approach in member states where only one ECAI operates.
- The significance of the criteria stated in page 19 paragraphs 91 and 92 is thus underestimated.
- The value of historical ratings data is underestimated as well. Historical data ensure the ECAI's independence of external pressures to the greatest level as they can be reviewed at any moment and prove the integrity of the provided ratings.
- Institutions might have to use ratings of an ECAI that is a competitor with regards to institution's shareholders interests.

Therefore, we suggest the elimination of this provision in the final recognition framework.



Question 2: Do you support the proposed joint assessment process? Does it address the need for efficiency, consistency and reduced administrative burdens in light of the CRD requirement that each competent authority makes its own decision (direct or indirect) on eligibility?

1) As far as the CEBS approach for the indirect recognition of ECAIs is concerned (page 5, paragraph 2), we consider that it contributes to the need for efficiency of the whole process, reduces the cost and time required by competent authorities and directly recognizes the competent authority that assesses the ECAI at a member state level.

However, we consider that the option given in paragraph 17 (page 8) undermines the proposal for indirect recognition. The respective paragraph could be reformed as follows: “In case additional competent authorities receive applications concerning an ECAI already recognized by the competent authority of another member state (first competent authority), these additional competent authorities can recognize the ECAI indirectly as long as the first competent authority along with the ECAI provide the additional competent authorities with all the necessary documentation to make them aware of the recognition process followed and the organizational framework of the ECAI.”

2) Concerning the issues of recognition in more than one member states (pages 10-12, paragraphs 32-45), we consider them to move towards the right direction. Nevertheless we would like to make some comments on a series of matters concerning the application of the whole process. Our suggestions are as follows:

- The competent authority of the member state where the ECAI operates predominantly should coordinate the whole process (process facilitator).
- The competent authorities of each member state should assign a deputy to participate in the recognition process.
- In case a member state does not assign a deputy in a specified period of time, or the deputy does not participate active in the recognition process, the process will proceed and the results will be final and restraining for the member state that did not participate actively. In such cases the competent authority that did not participate will receive all the necessary documentation that is related to the indirect recognition.

It is proposed that the same process is adopted in cases of ECAI Group applications. Thus a common policy on the recognition process will be ensured and any issues of conflict between competent authorities will be avoided.

Furthermore, there should be a common ECAI evaluation process that will take into account not only restrictions in default data availability but also parameters such as differences in definition of default, differences in specific country economic conditions where the ECAI operates, as well as the ECAI experience in specific geographic regions and types of companies (e.g. SMEs).

Having in mind the above, it is suggested that the common basis application pack (page 12, paragraph 50) is analyzed to a greater extent and that all competent authorities should be required to adopt it.

This way, a standard process will be followed by all member states that:



- Neither the competent authorities nor the ECAIS can easily misinterpret the recognition process
- Eases the process facilitator in the joint assessment process
- Supports the process of indirect recognition

Question 3: What are your views on the proposed common understanding of the CRD recognition criteria to be implemented by supervisors in determining the eligibility of ECAs?

1) We comprehend the significance of the independence criteria (pages 18-20, paragraphs 88-90). However, we consider that the procedures referred to in paragraphs 91 and 92 ensure the integrity and independence of ratings to the greatest extent.

Therefore it should be clarified that when the ECAI provides all necessary documents, procedures and historical data referred to in paragraphs 91 and 92 then all conflict of interest related issues mentioned in paragraphs 89 and 90 can be considered to be satisfied.

2) We understand the need for separation between the ECAI's credit rating activities and other ancillary services to ensure the objectivity of credit assessments.

Nonetheless, we comment that the regulation should endeavor to extend the role of ECAs and recognize their importance in helping banks to assess credit risk either with providing consulting services or with business information data (financial and commercial information for depicting customer profile and creditworthiness).

3) We believe that when an ECAI fully meets the conditions set out in paragraphs 91 and 92 should just prove that it separates its credit assessment activities from other businesses (paragraph 92b, page 19) at the level of functional and organizational structure and not at a legal level.

4) Bearing in mind the way that institutions work and their interest to reduce operational cost, the recognition framework should also consider credit assessment mechanisms (applications for Standardized Approach) provided by the ECAI that operate in banks' local environment and are fed with data either by staff of the bank credit department or by third sources.

In the above context, paragraphs 111-114 (pages 23-24) should also mention: "ECAs will be able to develop credit rating applications for Standardized Approach in banks' local environment so as to reduce banks' operational costs and improve their functionality. These applications should be developed and maintained strictly and exclusively by the ECAI. The structure of these systems -subject to competent authority's validation- must ensure that they cannot be accessed by the bank's staff, thus ensuring that no malicious intervention in credit assessment is possible".



5) As far as credibility and market acceptance issues are concerned, competent authorities should also take into consideration other indicators such as ECAI's ratings usage by several industries other than credit institutions.

Question 4: What are your views on the proposed approach for implementing the mapping process?

Question 5: Do you support the proposal that the mapping of credit assessments to risk weights should also be addressed under the joint process set out in part 1 for applications made in more than one member state?

1) ECAIs that lack long historical data and cannot produce the ten-year average of three-year CDRs, should not be obliged to make a projection for the ten-year CDRs, unless the competent authorities clearly define a methodology for producing such a projection.

Alternatively, local competent authorities could provide ECAIs with historical default data derived either from local credit institutions or by locally operating credit registers.

2) It is commonly acknowledged that there are differences in methodologies (mainly in the definition of default) among ECAIs. These differences might cause difficulties for the competent authorities in the mapping process.

We deem that such a case should not be regarded as a disadvantage in the processes followed by the ECAI and should in no way affect negatively the judgment of the competent authority. In such a case the assessment should be based on the soundness of procedures followed by the ECAI as described in the respective paragraphs of CEBS consultation paper.

3) Finally we have to point out that a common mapping process for all types of companies cannot be implemented (e.g. Corporate vs. SMEs). Consequently, competent authorities should take into account these specificities and might have to provide different mapping processes according to different types of companies and market segments or to ask potential ECAIs to contribute with their expertise in order to establish a reliable mapping process.

ICAP is willing to participate in such a process and remains at CEBS disposal for further information.

Kind regards,

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