

Mr Andrea Enria  
Secretary General  
CEBS  
Floor 18 Tower 42  
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London EC2N 1HQ

**RE: Supplementary note to Consultation Paper on ECAIs recognition**

Dear Mr Enria,

Standard & Poor's Ratings Services ("Ratings Services") welcomes the publication of CP07A and broadly supports CEBS' proposed approach to the mapping of securitisation credit rating assessments and Collective Investment Undertakings ("CIUs") credit rating assessments.

Ratings Services commends CEBS for its pragmatic approach towards mapping of securitised positions and CIU exposures, which reflects a good understanding of the characteristics of these areas – which it believes are consistent with the aims of the Capital Requirements Directive ("CRD"). Ratings Services furthermore commends CEBS for having initiated specific discussions with External Credit Assessment Institutions ("ECAIs") to enhance understanding of securitisation and CIU credit ratings and its altogether positive and open approach to the preparation of its guidelines on recognition of ECAIs, and on the mapping of ECAI rating assessments.

In this respect Ratings Services recalls its views expressed in its response to CP07 regarding mapping.<sup>1</sup> Ratings Services does however consider that the analysis and proposals in CP07A warrant additional comment.

Regarding mapping of securitisation positions, Ratings Services welcomes CEBS' suggestions, in the absence of statistically significant data on default probabilities, to put emphasis on qualitative aspects of securitisation ratings, and in particular to consider market participants' views on the correspondences between particular rating categories. CEBS is encouraged to take particular regard of the views of investors, including non-banks, that exert unbiased market discipline on credit rating assessments.

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<sup>1</sup> Please see response to questions (4), (5) and (6) of Ratings Services' Comment Letter to CP07, [http://www.cebs.org/documents/SP\\_CP07.pdf](http://www.cebs.org/documents/SP_CP07.pdf).

Ratings Services considers that the credit assessment of a CIU is not directly comparable with other “fundamental” bond credit assessments – given differences in investment characteristics, rating criteria and creditworthiness of portfolio investments. Ratings Services supports CEBS’ approach on CIU mapping as its rating methodology for assessing the credit quality of a CIU is derived from Ratings Services’ historical default and transition studies of the underlying assets and as such, provides a link to fundamental bond credit assessments.

With regard to the criteria that credit assessments of CIUs must fulfill to be eligible for the purpose of the CRD, Ratings Services supports CEBS’ proposal requiring credit assessments of CIUs to primarily depend on the credit quality of the CIU’s underlying assets. However, it considers that the criteria in paragraph 26 do not adequately reflect existing rating methodologies. Regarding the first criterion, Ratings Services’ methodology for assessing the credit quality of a CIU is derived from historical default and transition studies of the underlying assets. As a result, we do not use a simple weighted average of the individual credit assessments held in a CIU’s portfolio since the probability of default is not equally weighted across rating categories. Although the credit assessment of a CIU is based on the analysis of the credit quality of the individual assets within the fund, Ratings Services’ methodology is therefore not strictly identical to a “look through” approach under the meaning of the CRD.

In addition, Ratings Services does not entirely concur with the suggestion in the second criterion not to take “other factors” into account, as Ratings Services’ assessment for fund credit quality ratings incorporates an overall assessment of the credit research capabilities of the asset manager. This may on occasion result in a one notch upgrade of the fund credit quality rating (for instance from AA–f to AAf) or allow the fund to be managed with a credit score equivalent to that of a rating of one notch below the published rating, providing the manager with more flexibility. This potential upgrade, which is limited to a single notch, is one of the qualitative factors integral to the credit quality analysis of a CIU. As such, it is more than mitigated by our practice of notching down non-S&P rated exposures as well as by our conservative credit matrix factors.

Ratings Services therefore encourages CEBS to take a more high-level approach to paragraph 26 by instead stating that CIU credit rating assessments must primarily depend on the creditworthiness of the underlying assets (c.f. paragraph 7 of CP07A).

Yours Sincerely,



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