



COMPANHIA PORTUGUESA
DE RATING, S.A.

Committee of European Banking Supervisors
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Dear Sirs/Madams,

Companhia Portuguesa de Rating, S.A. (CPR) welcomes the opportunity to comment the guidelines presented for formal public consultation by the Committee of European Banking Supervisors (CEBS) for the Recognition of External Credit Assessment Institutions (ECAIs) under the Capital Requirements Directive (CRD).

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?

Page 5 Paragraph 1 of the consultation paper states “Only the credit assessments of an eligible ECAI, and for some exposures, the credit assessments of Export Credit Agencies, may be used by credit institutions and investment firms (“institutions”) for the purposes of determining risk weights under the Standardised Approach and the Securitisation Ratings Based Approaches”.

The institutions’ use of credit assessments for purposes of the CRD is not limited to the Standardised Approach and the Securitisation Ratings Based Approaches. In effect, under the terms of the Basel Accord (“International Convergence of Capital Measurement and Capital Standards – A Revised



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Framework”, Basel Committee on Banking Supervision, June 2004), and in what concerns the internal ratings based approach (IRB)):

- “An external rating can be the primary factor determining an internal rating assignment” (paragraph 411); and
- “Banks may associate or map their internal grades to the scale used by an external credit assessment institution or similar institution and then attribute the default rate observed for the external institution’s grades to the bank’s grades. Mappings must be based on a comparison of internal rating criteria to the criteria used by the external institution and on a comparison of the internal and external ratings of any common borrowers” (paragraph 462).

Therefore the institutions using the IRB should also indicate to the supervisory authorities, which ECAIs they intend to use as the source of credit assessments, and these be likewise subject to the recognition process.

Page 7 Paragraph 12 of the consultation paper states that “The recognition process is initiated when the competent authority receives an application for recognition. The competent authority in each Member State will indicate and disclose from which type of entity it will accept applications: ECAIs and/or institutions that intend to use the ECAIs credit assessments for risk weighting purposes”.

The supervisory authorities should not be given the possibility to only accept applications for recognition of ECAIs from institutions that intend to use credit assessments for CRD purposes, a situation which is not guaranteed in the text of the paragraph quoted above. Receipt of applications for recognition from one ECAI by the same ECAI should always be possible. It should be noted that because the number of ECAIs operating in the European Union’s Member States is not very significant, the acceptance of an application for recognition from the existing ECAIs will not entail a relevant extra administrative burden for the supervisory authorities.



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Page 9 paragraph 27 of the consultation paper states that “If an ECAI group can demonstrate that each of the subsidiaries for which it seeks recognition adheres to practices and procedures that are set at a group-wide level, then it will not be required to make separate applications for each subsidiary.”

For these cases we consider that the correct recognition procedure should be identical to the joint assessment process, with the participation of the competent supervisory authorities of the Member States where the credit assessments of the ECAI group would be used. Under the terms of the joint recognition, this would imply that the final decision to recognise each of the group’s subsidiaries would be taken by the competent supervisory authority of the geographical market where the issuers are located. We base our opinion on the fact that the supervisory authority of the geographical market where the issuers are based is in the best position to: assess if the methodologies used are the most appropriate to the specificities of the geographical market in question; and to prepare the mapping of credit assessments assigned locally by the ECAIs to the CRD risk weights, bearing in mind the historical level of default corresponding to each credit assessment category.

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 ECAIs?

With regard to the Common Basis Application Pack the following questions must be raised:

- ongoing review (follow-ups) (Page 35): ECAIs are requested to have in place the necessary procedures to ensure that the competent authorities are promptly informed of any material changes, but it is not clear whether these changes concern the ratings assigned or the procedures used by the ECAIs for the assignment of those ratings; and
- ongoing review (follow-ups) (Page 36): ECAIs are required to demonstrate that their backtesting system has been in place for at least one year – it is not clear what is meant by backtesting system, taking into account the answer we given to Question 4), in the next page.



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

Note that the requested default rates may be of no significance in view of the size of the sampling. This would be the case either with local rating agencies or with the international rating agencies in small geographical markets, providing these are treated separately (as theoretically should happen). For instance, over the last 10 years there has been in Portugal no known case of default by a rated company, which means that default matrices are all filled with zeros (both as concerns CPR and the ratings assigned by other rating agencies to portuguese issuers and issues by portuguese entities). In these cases the use of the qualitative factors mentioned in Paragraph 1, Page 28, is essential (both for CPR and for the international agencies' operation in those local markets).

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?

No, if we consider the specificities of mapping to local issues.

There should be similar mapping criteria for ECAIs assigning ratings to entities in the same jurisdiction, which might not be the case if such mappings are produced by the supervisory authorities of different Member States.