

ACRA Europe credit assessments under the Standardised Approach

1. Executive summary¹

1. This note lists the mapping² outcome proposed by the Joint Committee (JC) of the European Supervisory Authorities (ESAs) on the credit assessments of ACRA Europe, a.s. (ACRA Europe), with respect to the version published in May 2019.
2. The methodology applied by the JC of the ESAs to propose an amended mapping remains as specified in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 (the Implementing Regulation)³ laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (Capital Requirements Regulation – CRR). This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) of the CRR.
3. The information base used to produce this mapping report reflects additional quantitative and qualitative information collected after the production of the mapping report published in May 2019. The ECAI has introduced new credit rating products relevant for the mapping, namely credit assessments for Central Governments, and for Multilateral Financial Institutions and Other Supranational Development Institutions.
4. The mapping neither constitutes the one which ESMA shall report on in accordance with Article 21(4b) of Regulation (EC) No 1060/2009 (Credit Rating Agencies Regulation - CRA) with the objective of allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity⁴ nor should be understood as a comparison of the rating methodologies of ACRA Europe with those of other ECAIs. This mapping should however be interpreted as the

¹ The Joint Committee (JC) of the European Supervisory Authorities (ESAs) produces mapping reports illustrating how the outcome of the mapping assessment has been reached, based on the methodology set out in the Implementing Regulation (EU) 2016/1799 of 7 October 2016. While mapping reports are not mandated by the Capital Requirements Regulation, they are produced by own initiative to enhance transparency.

The JC of the ESAs has not received the consent from ACRA Europe a.s. to publish the information transmitted by the ECAI for the purposes of assessing the mapping. Therefore, the JC of the ESAs is not in a position to provide similar information for ACRA Europe a.s. as for other ECAIs having consented to the publication of their mapping reports.

² According to Article 136(1), the 'mapping' is the correspondence between the credit assessments of and ECAI and the credit quality steps set out in Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR).

³ OJ L 275, 12.10.2016, p. 3-18

⁴ In this regard, please consider https://www.esma.europa.eu/sites/default/files/library/esma_2015-1473_report_on_the_possibility_of_establishing_one_or_more_mapping.pdf.

correspondence of the rating categories of ACRA Europe with a regulatory scale which has been defined for prudential purposes.

5. As described in Recital 12 of the Implementing Regulation, it is necessary to avoid causing undue material disadvantage on those ECAIs which, due to their more recent entrance in the market, present limited quantitative information, with the view to balancing prudential with market concerns. Therefore, the relevance of quantitative factors for deriving the mapping is relaxed. This allows ECAIs that present limited quantitative information to enter the market and increases competition.
6. The resulting mapping tables have been specified in Annex III of the Consultation Paper on the revised draft ITS on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013. Figure 1 below shows the result for the main ratings scale of ACRA Europe, the long-term rating scale.

Figure 1: Mapping of ACRA Europe's long-term rating scale

Credit assessment	Credit quality step
AAA	1
AA	1
A	2
BBB	3
BB	4
B	5
CCC	6
CC	6
C	6
D	6

2. Introduction

7. The European Rating Agency a.s., registered with ESMA in Slovakia in 2012, was acquired by the Analytical Credit Rating Agency (ACRA) in April 2020 becoming ACRA Europe. As a result of its registration with ESMA it meets the conditions to be an eligible credit assessment institution (ECAI)⁵.
8. The methodology applied to produce the mapping is the one specified in the Implementing Regulation. This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) of the CRR.
9. The information base used to produce this mapping report reflects additional quantitative and qualitative information collected after the production of the mapping report published in May 2019. The ECAI has introduced new credit rating products relevant for the mapping, namely credit assessments for Central Governments, and for Multilateral Financial Institutions and Other Supranational Development Institutions. The qualitative factors described in the Implementing Regulation remain unchanged. The quantitative information is drawn from data available in the ESMA's central repository (CERP)⁶ based on the credit rating information submitted by the ECAIs as part of their reporting obligations.

3. ACRA Europe's credit ratings and rating scales

10. ACRA Europe produces two types of credit ratings. Column 2 of Figure 2 in Appendix 1 shows the relevant credit ratings that may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)⁷:
 - **Long-term issuer rating** – rating assigned to municipalities and entrepreneurial entities. Rating of towns and municipalities evaluates, on an independent basis, risks related to the ability and willingness of the town (municipality) to comply with its future liabilities. The rating of entrepreneurial entities provides creditors, investors but also the concerned entity with information and independent view on management processes and economic situation of the evaluated entity. Simultaneously the analysis aims at evaluating ability and willingness of an entrepreneurial entity to fulfil its liabilities resulting from its business activity. ACRA Europe also provides evaluation of following types of issues: Issues of towns, municipalities and municipal entities; other issues (bonds, bill of exchanges, etc.).
 - **Short-term issuer rating** – similar to long-term ratings, with the difference that it refers to a short-term time horizon.

⁵ It is to be noted that the mapping does not contain any assessment of the registration process of ACRA Europe carried out by ESMA.

⁶ <https://cerp.esma.europa.eu/cerep-web/>

⁷ As explained in recital 4 ITS, Article 4(1) CRA allows the use of the credit assessments for the determination of the risk-weighted exposure amounts as specified in Article 113(1) CRR as long as they meet the definition of credit rating in Article 3(1)(a) CRA.

11. ACRA Europe assigns these credit ratings to different rating scales as illustrated in column 3 of Figure 2 in Appendix 1. Therefore, a specific mapping has been prepared for the following rating scales:

- **Global long-term rating scale.** The specification of this rating scale is described in Figure 3 of Appendix 1.
- **Global short-term rating scale.** The specification of this rating scale is described in Figure 4 of Appendix 1.

Appendix 1: Credit ratings and rating scales

Figure 2: ACRA Europe's relevant credit ratings and rating scales

SA exposure classes	Name of credit rating	Credit rating scale
Long-term ratings		
Regional and local governments	Long-term issuer rating	Global long-term rating scale
Public sector entities	Long-term issuer rating	Global long-term rating scale
Central governments or central banks	Long-term issuer rating	Global long-term rating scale
Multilateral development banks	Long-term issuer rating	Global long-term rating scale
Institutions	Long-term issuer rating	Global long-term rating scale
Corporates	Long-term issuer rating	Global long-term rating scale
Short-term ratings		
Institutions	Short-term issuer rating	Global short-term rating scale
Corporates	Short-term issuer rating	Global short-term rating scale

Source: ACRA Europe.

Figure 3: Long-term rating scale

Credit assessment	Meaning of the credit assessment
AAA	Supreme rating. This symbol means that the company/title (issues) bears the minimum investment risk. The companies/titles labelled with this symbol contain very high probability of capability and willingness to pay principal, interests and fixtures of an investment in time and without any unnecessary delay. It is also highly improbable that the company/title might be threatened by alterations of economic or other external environments.
AA	The company/title (issue) bears a very low investment risk exposure. Companies/titles labelled with such symbol contain high probability of capability and willingness to pay principal, interest and fixtures of the investment in time and without any unnecessary delay. However, it is probable that the company/title may be threatened by distinct variations of economic or another external environment.
A	The company/title (issues) bears a low investment risk exposure. Companies/titles labelled with this symbol contain probability of uncertain capability or willingness to repay principal, interests and fixtures of investments in time and without any unnecessary delays. It is probable the company/title can be threatened by more serious variations of economic or another external environment.
BBB	The company/title (issues) bears a certain investment risk exposure. Companies/titles labelled with this symbol contain risk associated with capability or willingness to repay principal, interests and fixtures of investments in time and without any unnecessary delays. Capability of the company/issuer to pay principal, interests and fixtures of investment in time and without any unnecessary delay may be disturbed by variations of economic or another external environment.
BB	The company/title (issues) bears high investment risk exposure. Companies/titles labelled with this symbol contain high risk associated with capability or willingness to repay principal, interests and fixtures of investments in time and without any unnecessary delays. Capability of the company/issuer to repay principal, interests and fixtures of investment in time and without any unnecessary delay is not stable and may be substantially disturbed by variations of economic or another external environment.
B	The company/title (issues) bears a very high investment risk exposure. Companies/titles labelled with this symbol contain very high risk of preference to repay interests to repayment of principal. Even non-distinct variations of external environment may disturb capability of the company/issuer to repay its liabilities.

CCC	The company/title (issues) bears an extraordinarily high investment risk exposure higher than common in the sector of the company's/issuer's operation. Negative variations of external environment of any scope mean real risk of default.
CC	The company/title (issues) bears a high default risk exposure and its capability to repay its liabilities depends on distinctively positive development of the sector and industry of the operation of the company/issuer.
C	The company/title (issues) bears a very high default risk exposure. Even the positive development of the sector and industry of the company's/issuer's operation needn't mean its capability to repay liabilities in time and without unnecessary delay.
D	This symbol means that liabilities of this company/title (issues) are in default.

Source: ACRA Europe.

Figure 4: Short-term rating scale

Credit assessment	Meaning of the credit assessment
S1	The company/title (issues) bears a very low investment risk. The company/titles indicated with this symbol include a high probability of capability and willingness to repay principal, interests and fixtures of an investment in time and without unnecessary delay.
S2	The company/title (issues) bears an appropriate investment risk. The company/titles indicated with this symbol include a certain risk connected with capability and willingness to repay principal, interests and fixtures of an investment in time and without unnecessary delays. However, it is probable the company/title can be threatened by more distinct variations of economic and other external environment.
S3	The company/title (issues) bears a relatively high investment risk. The company/titles indicated with this symbol include a higher risk related to capability and willingness to repay principal, interests and fixtures of an investment in time and without unnecessary delays. However, it is probable the company/title can be also threatened by less distinct variations of economic and other external environment.
S4	The company/title (issues) bears a very high investment risk. Capability of the company /issuer to repay principal, interests and fixtures of an investment in time and without unnecessary delay depends on positive development of the sector and industry of the operation of the company/issuer.
NS	The company/title (issues) will be with high probability not capable of repaying its financial liabilities in time and without unnecessary delay.

Source: ACRA Europe.

Appendix 2: Mappings of each rating scale

Figure 5: Mapping of ACRA Europe Long-term rating scale

Credit assessment	Credit Quality Step
AAA	1
AA	1
A	2
BBB	3
BB	4
B	5
CCC	6
CC	6
C	6
D	6

Figure 6: Mapping of ACRA Europe Short-term rating scale

Credit assessment	Credit Quality Step
S1	1
S2	3
S3	4
S4	4
NS	4