Amended Draft Mapping of Axesor's credit assessments under the Standardised Approach

1. Executive summary

1. This report describes the mapping exercise carried out by the Joint Committee (JC) of the European Supervisory Authorities (ESAs) to determine the 'mapping'[1] of the credit assessments of Axesor Risk Management SL (Axesor), with respect to the version published in November 2015.

2. The methodology applied to produce the mapping remains as specified in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 (the Implementing Regulation)[2] 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 November 2015. Regarding qualitative developments, the qualitative factors as described in the Implementing Regulation remain unchanged. Axesor has introduced a new credit rating type, the insurance company ratings, and methodologies have been developed for banks, sovereigns and asset manager ratings. Finally, a mapping is assigned to Axesor's short-term rating scale.

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 entity[3] nor should be understood as a comparison of the rating methodologies of Axesor with those of other ECAIs. This mapping should however be interpreted as the correspondence of the rating categories of Axesor with a regulatory scale which has been defined for prudential purposes.

[1] 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).

[2] OJ L 275, 12.10.2016, p. 3-18

[3] In this regard please consider http://www.esma.europa.eu/system/files/esma__2015-1473_report_on_the_possibility_of_establishing_one_or_more_mapping....pdf.

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 which 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 credit rating scale of Axesor, the Global long-term rating scale.

Figure 1: Mapping of Axesor's Global 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
E (Default)	6

2. Introduction

7. This report describes the mapping exercise carried out by the JC to determine the 'mapping' of the credit assessments of Axesor Risk Management SL (Axesor), with respect to the version published in November 2015.

8. Axesor is a credit rating agency that has been registered with ESMA on 1 October 2012 and therefore meets the conditions to be an eligible credit assessment institution (ECAI)[4].

9. The methodology applied to produce the mapping remains as specified in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 (the Implementing Regulation) 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.

10. The information base used to produce this mapping report reflects additional quantitative information collected after the submission of the draft Implementing Technical Standards by the JC to the European Commission. The quantitative information is drawn from data available in the ESMA's central repository (CEREP[5]) based on the credit rating information submitted by the ECAIs as part of their reporting obligations.

11. Regarding qualitative developments, the qualitative factors as specified in the Implementing Regulation remain unchanged with respect to the mapping report published in November 2015, while a new credit rating type has been introduced (the insurance company ratings), and methodologies have been developed to produce credit assessments for banks, sovereigns and asset managers. Finally, a mapping is assigned to Axesor's short-term rating scale.

12. The following sections describe the rationale underlying the mapping exercise carried out by the Joint Committee (JC) to determine the mappings. Section 3 describes the relevant ratings scales of Axesor for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of the Global Long-term scale, whereas Section 5 refers to the mapping of the Global Short-term rating scale. The mapping tables are shown in Appendix 4 of this document and 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.

[4] It is to be noted that the mapping does not contain any assessment of the registration process of Axesor carried out by ESMA.

[5] https://cerep.esma.europa.eu/cerep-web/

3. Axesor credit ratings and rating scales

13. Axesor produces general corporate, insurance, bank and sovereign ratings which may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)[6], as shown in column 2 of Figure 2 in Appendix 1.

14. Axesor assigns these credit ratings to the **Global long-term and short-term rating scales** as illustrated in column 3 of Figure 2 in Appendix 1. Therefore, a specific mappings has been prepared for these rating scales.

4. Mapping of Axesor's Global long-term rating scale

15. The mapping of the Global rating scale has consisted of two differentiated stages where the quantitative and qualitative factors as well as the benchmarks specified in Article 136(2) CRR have been taken into account.

16. In the first stage, the quantitative factors referred to in Article 1 of the ITS have been taken into account to differentiate between the levels of risk of each rating category. The *long run default rate* of a rating category has been calculated in accordance with Article 6 of the Implementing Regulation, as the number of credit ratings cannot be considered to be sufficient, as per article 3(1)(a) of the Implementing Regulation. This is determined by comparing the number of ratings representing the inverse of the long-run default rate benchmark of the rating category, as referred to in point (a) of Article 14 of the Implementing Regulation.

17. In a second stage, the qualitative factors proposed in Article 7 of the ITS have been considered to challenge the result of the previous stage.

4.1. Initial mapping based on the quantitative factors

4.1.1. Calculation of the long-run default rates

18. The number of credit ratings for all rating categories of the long-term credit rating scale cannot be considered to be sufficient for the calculation of the short run and long run default rates specified in Articles 3 – 5 of the Implementing Regulation. Therefore the allocation to the CQS has been made in accordance with Article 6 of the Implementing Regulation, as shown in Figure 8 of Appendix 3.

[6] 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.

4.1.2. Mapping proposal based on the long run default rate

19. The assignment of the rating categories to credit quality steps has been initially made in accordance with Article 6 of the Implementing Regulation

- **AAA/AA/A/BBB/BB/B**: the number of rated items in each of these categories is equal or larger than the respective minimum required number of observed items given the number of defaulted items in the rating category. Thus the credit quality step associated with the AAA/AA, A, BBB, BB, B rating categories in the international rating scale (CQS 1, CQS 2, CQS 3, CQS4 and CQS 5 respectively) can be assigned.

- **CCC/CC/C/D:** since the CQS associated with the equivalent rating category of the international rating scale is 6, the proposed mapping is also CQS 6.

4.2. Final mapping after review of the qualitative factors

20. The qualitative factors specified in Article 7 of the Implementing Regulation have been used to challenge the mapping proposed by the default rate calculation. Qualitative factors acquire more importance in the rating categories where quantitative evidence is not sufficient to test the default behavior[7], as it is the case for all Axesor's rating categories.

21. Axesor has not registered material changes in the qualitative factors described in the Implementing Regulation, with respect to the mapping report published in November 2015. Therefore no adjustments are made based on qualitative factors.

5. Mapping of Axesor's global short-term rating scale

22. Axesor has reported a short-term rating scale. Given that the default information referred to these rating categories cannot be comparable with the 3-year time horizon that characterises the benchmarks established in the Implementing Regulation, the internal relationship established by Axesor between these two rating scales will be used to derive the mapping of the short-term credit rating scale. This is in line with Article 13 of the Implementing Regulation and ensures consistency across the mappings proposed for Axesor.

- **AS1+**. The issuer or issuance displays the highest capacity for the payment of its short-term debt obligations and maintains the lowest risk. It is internally mapped to rating categories AAA to A. The most frequent CQS is 1, which is therefore the proposed mapping.

- **AS1.** The issuer or issuance displays a high capacity for the payment of its short-term obligations. It is mapped to the long-term scale rating categories A+ to BBB+. The most frequent CQS is 2, which is therefore the proposed mapping.

[7] The default behavior of a rating category is considered to be properly tested if the quantitative factors for that rating category are calculated under Articles 3 – 5 ITS.

- **AS2.** The issuer or issuance displays an adequate capacity for the payment of short-term obligations. It has been mapped to the long-term scale rating categories BBB+ to BB+. The most frequent CQS is 3, which is therefore the proposed mapping.

- **AS3**. The issuer or issuance displays an adequate capacity for the payment of short-term obligations. However, adverse economic conditions may impair its ability. It has been mapped to the long-term scale rating categories BB+ to B+. The most frequent CQS is 3, which is therefore the proposed mapping.

- **AS4.** The issuer or issuance displays a modest capacity for the timely payment of short-term debt obligations, and maintains an increased risk compared with higher credit rating instruments. It is internally mapped to rating categories BB- to CCC+. The most frequent CQS is 5. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed is CQS 4.

- **AS5.** The issuer or issuance displays an insufficient capacity for the timely payment of short-term debt obligations and maintain a very high risk. These instruments are susceptible to falling into default. It is internally mapped to rating categories CCC+ to D. The most frequent CQS is 6. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed is CQS 4.

- **ASD**. The company is in default, has payment delays, has been declared insolvent or is currently undergoing insolvency proceedings. It is mapped to rating category D. Therefore, CQS 6 is the proposed mapping. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed for the C rating category is CQS 4.

Appendix 1: Credit ratings and rating scales

Figure 2: Axesor's relevant credit ratings and rating scales

SA exposure classes	Name of credit rating	Credit rating scale
Long-term ratings		
Central governments or central banks	Long-term sovereign rating	Global long-term rating scale
Regional governments or local authorities	Long-term sub-sovereign rating	Global long-term rating scale
Corporates	Long-term corporate rating	Global long-term rating scale
	Long-term insurance corporate rating	Global long-term rating scale
Institutions	Long-term institution rating	Global long-term rating scale
Short-term ratings		
Corporates	Short-term corporate rating	Global short-term rating scale
	Short-term insurance corporate rating	Global short-term rating scale
Institutions	Short-term institution rating	Global short-term rating scale

Figure 3: Global long-term rating scale

Credit assessment	Meaning of the credit assessment
AAA	Maximum credit quality Excellent company's capacity to meet its payment obligations. It is reliable with regards to timely payment of future financial obligations.
AA	It has a high capacity level to meet its credit obligations, even in the event of any potential changes in the financial environment.
A	Strong capacity to meet its credit obligations. However, this rating may deteriorate in the event of moderately adverse changes in the financial.
BBB	More than adequate capacity to meet its financial obligations. However, this capacity has a higher probability to deteriorate in the mid-long term than in higher categories.
BB	Adequate capacity to meet its financial obligations.
B	Although its capacity to meet payment obligations shows no difficulties at present, it may not last for long.
CCC	Low capacity to meet its financial obligations. It depends on a favorable financial environment.
CC	Poor credit rating. Its capacity to repay its financial obligations is uncertain. High probability of failure to meet some of its obligations. High sensitivity to financial environment changes.
C	Very poor credit rating. High risk of stopping or interrupting payments.
D	Very close to insolvency. High risk of payment failure.
E (Default)	The company is in default, has payment delays, has been declared insolvent or is currently undergoing insolvency proceedings. There is a possibility of default on its financial obligations.

Source: Axesor

Figure 4: Global short-term rating scale

Credit assessment	Meaning of the credit assessment
AS1+	The issuer or issuance displays the highest capacity for the payment of its short-term debt obligations and maintains the lowest risk.
AS1	The issuer or issuance displays a high capacity for the payment of its short-term obligations
AS2	The issuer or issuance displays an adequate capacity for the payment of short-term obligations.
AS3	The issuer or issuance displays an adequate capacity for the payment of short-term obligations. However, adverse economic conditions may impair its ability.
AS4	The issuer or issuance displays a modest capacity for the timely payment of short-term debt obligations, and maintains an increased risk compared with higher credit rating instruments
AS5	The issuer or issuance displays an insufficient capacity for the timely payment of short-term debt obligations and maintain a very high risk. These instruments are susceptible to falling into default.
ASD	The company is in default, has payment delays, has been declared insolvent or is currently undergoing insolvency proceedings.

Source: Axesor

Figure 5: Internal relationship between Axesor's long-term and short-term rating scales

<table>
<tr><th>Long-term rating scale</th><th colspan="2">Short-term rating scale</th></tr>
<tr><td>AAA</td><td rowspan="6">AS1+</td><td rowspan="4"></td></tr>
<tr><td>AA+</td></tr>
<tr><td>AA</td></tr>
<tr><td>AA-</td></tr>
<tr><td>A+</td><td rowspan="4">AS1</td></tr>
<tr><td>A</td></tr>
<tr><td>A-</td><td></td></tr>
<tr><td>BBB+</td><td rowspan="4">AS2</td></tr>
<tr><td>BBB</td><td rowspan="2"></td></tr>
<tr><td>BBB-</td></tr>
<tr><td>BB+</td><td rowspan="4">AS13</td></tr>
<tr><td>BB</td><td></td></tr>
<tr><td>BB-</td><td rowspan="4">AS4</td></tr>
<tr><td>B+</td></tr>
<tr><td>B</td><td rowspan="2"></td></tr>
<tr><td>B-</td></tr>
<tr><td>CCC+</td><td rowspan="6">AS5</td></tr>
<tr><td>CCC</td><td rowspan="5"></td></tr>
<tr><td>CCC-</td></tr>
<tr><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td>D</td></tr>
<tr><td>Default</td><td colspan="2">Default</td></tr>
</table>

Source Axesor

Appendix 2: Definition of default

The definition of default at Axesor Rating varies from one asset class to the other in order to reflect the idiosyncrasies of each asset class as can be seen in the following classification

Corporate default definition

A company is considered to be in default when any of the following occurs:

- The company has breached any of its financial obligations.
- The company is undergoing Insolvency Proceedings or is in a situation involving similar protective measures.

Banks and other financial institutions default definition

A bank or other types of financial institutions are considered to be in default when any of the following occurs:

- Default: non-payment by the financial institution of its commitments to third parties or the initiation of bankruptcy proceedings.
- Failure: inability to continue with the activity in the absence of extraordinary support. This support is defined as that coming from public institutions directly or through delegated mechanisms, the acquisition by another company or the recapitalization of this from its shareholding.

Sovereign / sub-sovereign default definition

We consider that a sovereign government is in default if one of the following events occurs:

- If upon expiration of any financial facility (direct or issued by a sub-sovereign and/or a decentralized body but guaranteed by the sovereign government) it does not pay the principal and / or interest / coupon payment accrued.
- If the refinancing / restructuring of any financial facility is closed under worse conditions for the creditors than those maintained in the original facility.

Source: Axesor

Appendix 3: Default rates of each rating category

Figure 6: Number of weighted items[8]

	AA	A	BBB	BB	B	CCC	CC	C	D
01JAN2013	2	4	10	9.5	11	8.5	8	3.5	4.5
01JUL2013	2	2.5	11	8.5	8	7	10.5	3.5	2.5
01JAN2014	2	2.5	10	6.5	8	5	5	6	1.5
01JUL2014	2	2.5	9	10.5	6.5	6	5	2.5	2.5
01JAN2015	2	2.5	9	11	6	5.5	4	2.5	2
01JUL2015	1.5	2	8.5	11	4.5	5	4	2.5	2
01JAN2016	1.5	1.5	11.5	12.5	5	3.5	4	1.5	1.5
01JUL2016	1	0.5	7	9	3	3	2.5	1.5	1.5
01JAN2017	1	0.5	7.5	9	4	2	2.5	0.5	0
01JUL2017	1	0.5	9.5	7	4	2.5	2	0	0
01JAN2018	1	0.5	10	7.5	3.5	1	0	0.5	0
01JUL2018	1	0.5	8.5	4.5	1.5	1	0	0.5	0

Source: Joint Committee calculations based on CEREP data

[8] Withdrawn ratings have been weighted by 50% in accordance with Article 4(3) of the ITS.

Figure 7: Number of defaulted rated items

	AA	A	BBB	BB	B	CCC	CC	C	D
01JAN2013	0	0	0	0	2	0	0	1	2
01JUL2013	0	0	0	0	0	1	0	1	0
01JAN2014	0	0	0	0	0	0	0	1	0
01JUL2014	0	0	0	0	0	0	0	0	0
01JAN2015	0	0	0	0	0	0	0	0	0
01JUL2015	0	0	0	0	0	0	0	0	0
01JAN2016	0	0	0	0	0	0	0	0	0
01JUL2016	0	0	0	0	0	0	0	0	0
01JAN2017	0	0	0	0	0	0	0	0	0
01JUL2017	0	0	0	0	0	0	0	0	0
01JAN2018	0	0	0	0	0	0	0	0	0
01JUL2018	0	0	0	0	0	0	0	0	0

Source: Joint Committee calculations based on CEREP data

Figure 6: Mapping proposal for rating categories with a non-sufficient number of credit ratings

	AAA/AA	A	BBB	BB	B
CQS of equivalent international rating category	CQS 1	CQS 2	CQS 3	CQS 4	CQS5
N. observed defaulted items	0	0	0	0	2
Minimum N. rated items	0	0	0	0	0
Observed N. rated items	13	17.5	69	69.5	49
Mapping proposal	**CQS 1**	**CQS 2**	**CQS 3**	**CQS 4**	**CQS 5**

Source: Joint Committee calculations based on CEREP data

Appendix 4: Mappings of each rating scale

Figure 9: Mapping of Axesor's Global long-term rating scale

Credit assessment	Initial mapping *based on LRDR* (CQS)	Review *based on SRDR* (CQS)	Final review *based on qualitative factors* (CQS)	Main reason for the mapping
AAA	1	n.a.	**1**	The quantitative factors are representative of the final CQS.
AA	1	n.a.	**1**	
A	2	n.a.	**2**	
BBB	3	n.a.	**3**	
BB	4	n.a.	**4**	
B	5	n.a.	**5**	
CCC	6	n.a.	**6**	
CC	6	n.a.	**6**	
C	6	n.a.	**6**	
D	6	n.a.	**6**	
E (Default)	n.a.	n.a.	**6**	The meaning and relative position of the rating category is representative of the final CQS.

Figure 10: Mapping of Axesor's Global short-term rating scale

Credit assessment	Corresponding rating category long-term scale	Range of corresponding CQS	Final review *based on qualitative factors* (CQS)	Main reason for the mapping
AS1+	AAA/AA+/AA/A A-/A+/A	1/1/1/1/2/2	**1**	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category.
AS1	A+/A/A-BBB+	2/2/2/3	**2**	
AS2	BBB+/BBB/BBB-/BB+	3/3/3/4	**3**	
AS3	BB+/BB/BB-/B+	4/4/4/5	**4**	
AS4	BB-/B+/B/B-/CCC+	4/5/5/5/6	**4**	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category. The risk weights assigned to CQS 4 to 6 are all 150%, therefore CQS 4.
AS5	CCC+/CCC/CCC-/CC/C/D	6/6/6/6/6/6	**4**	