



Draft ITS amending Implementing Regulation (EU) 2016/1799 on the mapping of ECAs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013

Public Hearing, 12 February 2021

Public Hearing on revised draft ITS ECAs mapping under SA

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Public Hearing Outline



- Background
 - Mandate
 - Milestones
- Rationale revised draft ITS
 - New ECAIs
 - De-registrations
 - Monitoring
- Proposed amendments
- Mapping under SII
- Next steps
- Q&A

Background: CRR mandate

CRR Article 136

Mapping of ECAI's credit assessments

1. EBA, EIOPA and ESMA shall, through the Joint Committee, develop draft implementing technical standards to specify for all ECAIs, with which of the credit quality steps set out in Section 2 the relevant credit assessments of the ECAI correspond ('mapping'). Those determinations shall be objective and consistent.

Context: under the SA risk weights should be based on the exposure class to which the exposure is assigned and, if applicable, on its credit quality determined by reference to the credit assessments of ECAIs.

Stylised example: corporate exposure for which credit assessment “A” is available by nominated ECAI “Y”.



Credit quality step	Risk weight
1	20%
2	50%
3	100%
4	100%
5	150%
6	150%

CRR

- Chapter 2: SA
- Section 2 on risk weights
- Article 122 on corporates

Background: Milestones: original draft ITS



- Based on the draft ITS submitted by the JC of the ESAs, the Commission adopted on 7 **October 2016** Implementing Regulation 2016/1799 specifying **mappings for 26 ECAIs** and a **methodology** with relaxed quantitative criteria for smaller ECAIs.

Credit quality step	1	2	3	4	5	6
<i>AM Best Europe-Rating Services Ltd</i>						
Long-term issuer credit ratings scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, rs
Long-term debt ratings scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d
Financial strength ratings scale	A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term ratings scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4		
<i>ARC Ratings S.A.</i>						
Medium and long-term issuers rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Medium and long-term issues rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuers rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Short-term issues rating scale	A-1+	A-1	A-2, A-3	B, C, D		
<i>ASSEKURATA Assekuranz Rating-Agentur GmbH</i>						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC/C, D
Short-term corporate rating scale	A++	A		B, C, D		

Background: Milestones: First amendment



- JC ESAs mandated to specify mappings “for all ECAIs”, defined in CRR article 4(1) as
(98) External credit assessment institution or “ECAI” means a credit rating agency that is registered or certified in accordance with regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009.
- First ITS amendment adopted in April 2018 to account for **newly registered ECAIs** and de-registration of an agency. Mapping methodology unchanged.

Additional ECAIs
Egan-Jones Ratings Co.
HR Ratings de México, S.A. de C.V.
INC Rating Sp. z o.o.
modeFinance S.r.l.
Rating-Agentur Expert RA GmbH

Background: Milestones: Second amendment



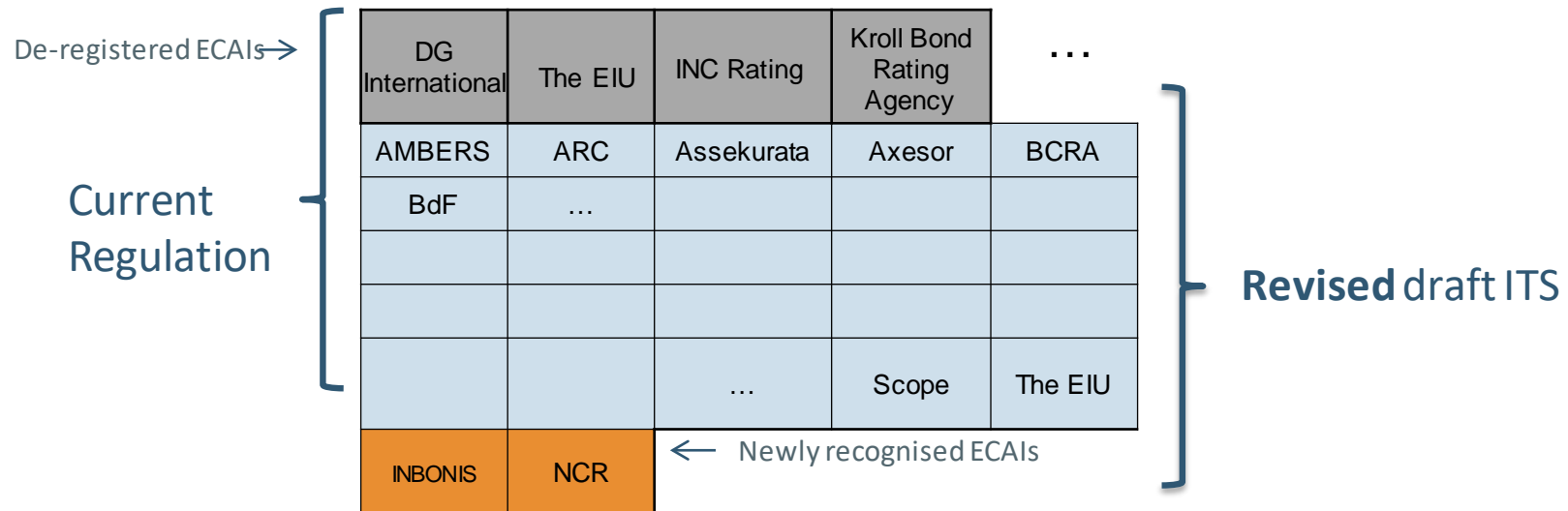
Second ITS amendment adopted in November 2019 to reflect:

1. Registration of **additional ECAIs** in the EU
2. A **monitoring** exercise on mapping adequacy following the same methodology as adopted in 2016
 - Updated **risk assessment** based on additional information collected:
 - Re-allocation of CQS for two ECAIs
 - Reflection of **10 new rating scales** developed by existing ECAIs

Proposal third amendment

- Draft ITS amendment to reflect:
 - Produce mappings for the two newly established ECAIS
 - Remove references to de-registered or de-certified ECAIs
 - Monitor existing mappings remain adequate

ECAIs population



Proposal third amendment: Mappings new ECAIs (I)

- Two additional ECAIs registered:
 - INBONIS
 - Nordic Credit Rating
- **Calibration**: remains aligned with EBA methodology adopted 2016 ITS
 - Use of qualitative and quantitative factors
 - No corrections, in case of limited quantitative data
- Information sources:
 - Quantitative: CEREP dataset:
 - ▶ Objective and harmonised
 - Qualitative: questionnaire
- Companion **Mapping Reports** will also published.

Proposal third amendment: Mappings new ECAIs (II)



Credit quality step	1	2	3	4	5	6
INBONIS SA						
Long-term rating scale	AAA/AA	A	BBB	BB	B	CCC, CC, C, D
Short-term rating scale			N-1+	N-1, N-2, N-3, N-4		
Nordic Credit Rating AS						
Long-term rating scale	AAA/AA	A	BBB	BB	B	CCC, CC, C, D, SD

Proposal third amendment: Monitoring framework



- Framework based on **objective** criteria:
 - Quantitative: CEREP
 - Qualitative: notifications received by supervisor
- Objective: existing mappings remain **up-to-date**:
 - Prudential concerns: **risk assessment** aligned with CQS allocation
 - ▶ Additional quantitative information
 - ▶ Monitoring changes qualitative factors (e.g. default definition, time horizon)
 - **Stock-taking** current rating products

Proposal third amendment: Monitoring output



Amendment **ITS Annex III** on mapping tables to reflect:

- **Re-allocation of CQS** for two ECAIs:
 - ▶ Creditreform AG upgrade for rating category B
 - ▶ GBB-Rating upgrade for rating category A
- Mappings for **9 new credit rating scales** developed by existing ECAIs
 - ▶ ARC Ratings, Axesor Risk Management; Banque de France; Cerved Rating Agency; CRIF Ratings; DBRS Ratings; ICAP; Rating-Agentur Expert RA; S&P Global Ratings Europe.

Proposal third amendment: monitoring: mapping reports



As per previous practice **mapping reports** will continue to be published to enhance transparency

- Provide:
 - Info on relevant SA exposure classes and credit rating types
 - Illustration application methodology
- Amended Mapping reports for the following ECAIs:
 - **New rating scales to be mapped:** ARC Ratings, Axesor Risk Management; Banque de France; Cerved Rating Agency; CRIF Ratings; DBRS Ratings; ICAP; Rating-Agentur Expert RA; S&P Global Ratings Europe.
 - **New CQS allocation:** Creditreform; GBB-Rating
 - **New segments:** ACRA Europe, BCRA-Credit Rating Agency, Capital Intelligence Ratings, Kroll Bond Rating Agency Europe, Moody's Investors Service and Scope Ratings.

Mapping under Solvency II

- **Mandate** to JC ESAs under Directive 2009/138/EC (Solvency II)

Article 109a

Harmonised technical inputs to standard formula

1. For the purposes of the calculation of the Solvency Capital Requirement in accordance with the standard formula, the ESAs through the Joint Committee shall develop draft implementing technical standards on the allocation of credit assessments of external credit assessment institutions (ECAIs) to an objective scale of credit quality steps applying the steps specified in accordance with Article 111(1)(n).

- Solvency II requires **consistency** on the use of ECAI ratings with the banking regulation for the calculation of capital requirements
 - The allocation is produced following the mapping for the banking regulation => applied *mutatis mutandis*

Next steps

Date	Milestone
29 January 2021	Publication Consultation Paper
5 March 2021	Closure Consultation Period
Target: 2021Q2	<p>Review Comments in response to the Consultation Paper and preparation final revised draft ITS</p> <p>Approval process final revised draft ITS by internal committees and governing bodies of the ESAs and the ESAs Joint Committee</p> <p>Submission revised draft ITS to the Commission</p>

Q&A



Thank you!



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