COFACE RESPONSE TO THE CEBS SUPPLEMENTARY NOTE TO THE CONSULTATION PAPER ON THE RECOGNITION OF EXTERNAL CREDIT ASSESSMENT INSTITUTIONS

The Supplementary note to Consultation Paper on ECAI issued by CEBS is clear and precise and we support most of its terms. We support also the principle of a focus made on credit assessments on securitization positions and Collective Instruments Undertakings (CIU) specificities and markets.

Considering the CEBS proposals, we fully support the combination of both qualitative and quantitative approaches to conduct an analysis of credit assessments on those assets.

Qualitative analysis is a key element in the credit assessment of this asset class. This analysis has nevertheless to be achieved in as transparent as possible way. Furthermore, COFACE considers that the question of responsibility and potential conflict of interest should be clarified as a large number of securitizations is driven by ECAI requirements -or supposed requirements-. Thus, a strong influence is *de facto* created between the futures rated assets and the ECAI itself, independently of the will of the ECAI. Such structuring link does not exist with the same intensity between rated corporates and ECAI. This is why COFACE considers that transparency on the initial rating process before the launch of those assets should be one of the positive aspects that could intervene in the ECAI recognition process.

Concerning quantitative analysis, we want to underline that the parsimony of default data or default observations can be partially or totally compensated by two types of analysis:

- Analysis of rating transitions
- Analysis of methodologies

On the first type of analysis, as highlighted by the CEBS, the ratings on securitization and CIU assets are important drivers of the market. Notably, the perception of the market of highly rated assets, e.g. AAA assets classes and related, is more of the kind "should be strongly stable" than "should be without default" assets. Thus, COFACE considers that the transition matrixes are important tools and should be benchmarked against matrixes in other assets classes like corporate bonds. Furthermore, as the final purpose of ratings may differ, e.g. probability of default against lossesn, the transition matrixes could be an efficient tool to compare ratings through their stability in complement to their pure default.

On the second type of analysis, we consider that the underlying models in the rating processes are key elements. Therefore, we recommend full transparency on the methodologies applied and on their assumptions: typically Merton based models versus intrinsic models; structure of the correlations used; number of exogenous factors or through the parameters,e.g. levels of macro correlations used; mappings used to consider unrated sub assets.

The same recommendation applies on the consistency of such models in their global economic and market environment. Notably, COFACE considers that the consistency of the models that would be deployed by ECAI when rating securitization or CIU with the CRD itself should be a specific point to be assessed. As one of the goals of the Basel 2 reform is a reduction of the regulatory capital arbitrages, this goal could be out of reach if the credit assessment of securitization or CIU performed by ECAI involves substantially different risk parameters (e.g. the value of the systemic correlation), unless sufficient econometric grounds were provided.

Finally, the credit assessment of the underlying assets and their related weighted PD average is an important part of a credit assessment of securitization and CIU assets. It is as important as the necessity to use robust, accurate and transparent methods to measure the final risk consistently with the purposes of the CRD for the other assets.