To

European Banking Authority ("EBA")

Submitted via EBA website

August 7th, 2015

Reference: Consultation Paper EBA/CP/2015/08 dated May 7th, 2015 on the Draft Implementing Technical Standards on the mapping of ECAIs' credit assessments for securitization positions under Article 270 of Regulation (EU) N° 575/2014 (Capital Requirements Regulation – CRR)

Dear Sirs,

With reference to the publication of the above consultation, we are pleased to hereby submit the views of 10 ESMA registered and 2 ESMA certified Credit Rating Agencies – the short profiles of our members are attached to this letter.

We would like to thank the European Banking Authority for publishing this consultation ("SF mapping"), as it serves as a good point of comparison for the mapping of ECAIs ratings under the standardized approach for credit risk ("SA mapping").

Before responding to the 3 specific questions raised, we would like to comment on the wording used in the consultation paper to refer to S&P, Moody's or Fitch: incumbent ECAI, large ECAI, long established ECAI. On the other hand, the remaining ECAIs are referred to as "small ECAI" or "new ECAI". We think that this classification is misleading and creates two classes of ECAIs based purely on language, thereby reinforcing the oligopoly on the market. S&P, Moody's and Fitch cover all market segments and therefore require the corresponding resources. Broken down to a specific market, these 3 agencies may not excel with their resources or number of ratings assigned. As an example, we would like to cite AM Best who was established already in 1899 and focuses exclusively on one market segment. As another example, we would like to refer to Cerved Rating Agency, which is recognized as ECAI by Bank of Italy since 2007 and can't be considered a new ECAI.

We rather propose to use the term of "systemic" and "non-systemic" ECAIs. The registration of an CRA by ESMA includes the assessment of the systemic importance of a CRA to the financial system. To our understanding, only S&P, Moody's and Fitch classify as systemic agencies – while the ESMA market share report of ESMA registered CRAs is a strong indicator, we think that the systemic importance of these agencies is in reality even higher (since the ESMA calculation is based solely on the EU turnover of these agencies).

Question 1: Do you agree with the proposed approach to the mapping of securitization ratings issued by the incumbent ECAIs?

We note that the proposed mapping is solely based on a qualitative assessment and does not take into account historical default rates in the analysis.

This SF mapping clearly highlights the limits of an approach based on historical default evidence: while ratings are forward looking opinions on credit risk, the mapping of ratings is usually based on observed historical default rates. But, a revised mapping (eg downwards) impacts going forward.

While S&P, Moody's and FitchRatings showed a very high default rate during the global financial crisis, ratings are slowly returning to pre-crisis level. Seen through the lenses of the SA mapping methodology, the AAA SF ratings of S&P and Moody's would map into CQS 4 (corresponding usually to the "BB" category). As this revised mapping would be applied to post-crisis, new assets, investors would need to set far higher capital requirements! Given the systemic effect of such a revision, the mapping was done on a qualitative basis only. EBA mentions that these CRAs have changed their rating methodologies and that historic performance is not representative for the current methodologies. Given the track record during the global financial crisis, we think that a change in methodologies was an absolute necessity! Additionally, will the argument regarding the change of rating methodologies be applied equally to any CRA in any market segment?

This SF mapping also demonstrates the difficulty of defining a "single view" across highly different asset classes and geographies. According to the consultation paper, the default rates observed are significantly driven by the performance of two specific asset classes during the crisis years, namely the US-subprime RMBS and US CDOs. Given the high number of ratings in these two market segments, overall performance is "biased" downwards.

This SF mapping is a clear evidence that the benchmarking of ECAI ratings to the ratings of S&P, Moody's and Fitch does not derive any meaningfull information. Applying this "self-referencing system" to these 3 agencies to SF ratings would mean that AAA ratings would map on a quantitative basis into CQS 1. This shows that all three agencies have had the same performance and that none was able to detect the global financial crisis. Basing the mapping of other ECAIs on a comparison to S&P, Moody's and Fitch is therefore not advisable.

Last but not least, we note that the revision of a mapping does not impact on the Credit Rating Agencies but impacts on the user of these ratings (and thereby to issuers) – instead of revising a mapping, in case a deterioration of ratings quality is being observed, we think that ESMA should investigate and take, if required, supervisory actions to restore rating quality or withdrawn the registration of a CRA in ultima ratio.

Question 2: Do you agree with the proposed approach to the mapping of securitization ratings issued by small/more recent ECAIs?

Similar to the SF mapping of the dominant 3 ECAIs, the approach to the mapping of the other ECAIs is based on a qualitative process. As historical rating data are not taken into account, the lack of a high number of ratings does not constrain these ECAIs mappings. The SF mapping is purely based the existence of a specific rating methodology and the meaning of the rating scales. We welcome this approach as it centers on the rating methodologies as a basis for assigning credit ratings.

We think that same level of supervisory judgment should be applied to the SA mapping:

- The vast majority of CRAs have not the track record to undergone the mapping process based on historical default evidence (requiring amongst others 12 years of rating information)
- Would allow consistency in approach in all market segments (both in terms of types of exposures and types of users of ratings)
- Reduces complexity
- Correspond to the requirements of the Article 136 specifically calling for a framework for new, small CRAs
- Creates a level playing field for all ECAIs and thereby contributes to more competition in the rating market

Question 3: Do you see any adverse market implications/conceptual drawbacks arising from potentially inconsistent mappings being applied to any given ECAI across the standardized approach for credit risk (mapping under Article 136 of the CRR) and the securitization framework (mapping under Article 270 of the CRR)?

A comparison of the two mapping approaches shows the following:

	Structured Finance	**Corporate Ratings**
Quantitative factors used		
Global Benchmarks	No. No Global standard is currently defined.	Yes. The global benchmark used are widely question marked if these are really applicable to the European Union
Minimum number of ratings per rating category	No.	Yes. Going beyond the global standards, a minimum of 496 Ratings in AAA/AA category without any defaults are set.
historic evidence	No.	Yes. In order to allow a "full" mapping, 12 years of rating data are required
Approach to new CRAs	Based on published rating methodologies and rating scales. No rating evidence is being taken into account.	Several adjustments are being carried out (eg withdrawn ratings, definition of default, comparison to benchmark ECAIs)
Result of quantitative mapping		
systemic CRAs	According to page 48 of the SF Mapping consultation, if the methodology for non-SF ratings were applied to SF ratings, AAA ratings from dominant 3 CRAs would map in CQS 3 or CQS 4.	According to the mapping reports of S&P, Moody's and Fitch, AAA and AA ratings for the period 2006-2011 would map into CQS 2.
Non-systemic ECAIs	The lack of quantitative rating data is a driver. Since CRAs need to register with ESMA prior to issuing credit ratings, new CRAs have per definition a limited number of ratings available.	
effect on RWA due to the revision of the mapping of		
systemic ECAIs	High. The Dominant ECAIs are widely used to determine capital requirements. Changing the mapping of these ECAIs would substantially impact on capital requirements.	

Non-systemic ECAIs	Low. Most new ECAIs are not yet used as “nominated ECAIs” and the debt volume rated is – compared to dominant ECAIs – still limited.	
Proposed mapping		
systemic CRAs	The mapping of ratings is not modified and the “standard” mapping applies across all market segments.	
Non-systemic ECAIs	All new ECAIs have received the standard mapping.	due to lack of data, CQS 1 was not granted to most EU CRAs.
level of supervisory judgment applied		
to systemic CRAs	High.	Medium
Non-systemic CRAs	Medium.	None. High level of conservatism for lack of data applied systematically.
Format of Mapping reports	No mapping reports provided for individual ECAIs	Detailed mapping reports for each ECAI presented.

The above comparison shows that two different standards/approaches are being used in the SF and SA mappings.

While consistency between CRR SA mapping and Solvency II mapping was explicitly a target, this is not the case for the SF mapping. To our understanding, the Solvency II mapping also covers securitizations. Therefore 2 different mappings for SF ratings of non-systemic ECAIs under CRR and Solvency II exist: while a AAA rating would map into CQS 1 under CRR, the same transaction would map into CQS 2 under Solvency II. Insurances will be disadvantaged compared to CRR and would most potentially not buy the asset. Insurances would not nominate small CRAs as ECAIs for the calculation of risk factors.

While CRAs may qualify an asset as Structured Finance, banks need to assign exposures according to the definitions of the CRR. Having two different mappings for non-systemic ECAIs additionally increases complexity.

From a more general perspective, the different treatment of non-systemic ECAIs under the SA and SF mapping creates a two-tier system of ECAIs: those having received the “traditional” mapping across all asset classes and users of ratings and the other ECAIs. This will substantially impact on the non-systemic ECAIs and creates a long-term supervisory barrier to more competition in the CRA market.

Sincerely yours

Thomas Missong
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EACRA Secretary General

About EACRA contributing to this letter

ESMA registered Credit Rating Agencies

ARC Ratings is an international rating agency with a presence in 11 countries on four continents. ARC is registered with ESMA and results from a partnership of 5 leading rating agencies operating in India, Brazil, Sub-Saharan Africa, Malaysia and Europe. This partnership has over 6000 rating clients and 400 ratings staff, giving ARC global coverage as well as vital local knowledge

Assekurata Assekuranz Rating-Agentur is the first independent German rating agency that has specialized on the quality evaluation of insurance companies

Axesor: The first Spanish Rating agency registered with ESMA. Specialized in the middle market segment, with ample coverage of the Spanish corporate market.

Capital Intelligence (CI) offers independent rating opinions on financial institutions, corporates and governments in a wide range of countries, especially the emerging markets of Asia, Europe and the Middle East.

Cerved Rating Agency: Italian Credit Rating Agency recognized ECAI by Bank of Italy

Creditreform Rating: based in Germany, a company of the Creditreform Group that is European market leader in the sector of business information was founded 2000 and is specialised in ratings of companies, bonds, funds and structured finance products across Europe.

CRIF: International Credit Rating Agency based in Italy providing both solicited and unsolicited Corporate ratings.

Dagong Europe Credit Rating, headquartered in Milan, was registered by ESMA in June 2013. It is owned by Dagong Global Credit Rating and led by Ulrich Bierbaum as General Manager. Dagong Europe provides European and Asian investors with credit opinions on financial institutions (including insurance companies) and non-financial corporate.

Euler Hermes Rating is a European rating agency located in Hamburg, Germany. We offer credit ratings and research about debt capital market instruments of corporates of all sorts of industries, project finance ratings and credit portfolios. Euler Hermes Rating is a member of Euler Hermes Group and a company of Allianz

Scope Ratings was founded as an independent rating agency in Berlin, Germany, in 2002. It specializes in ratings and research of financial institutions, corporates, structured finance transactions and alternative investment funds across Europe.

ESMA certified Credit Rating Agencies

Egan-Jones Ratings Company ("EJR") is a leading Rating Agency in the United States with a strong track record for being early and correct. We publish several hundred qualitative and quantitative reports each month. Our reports are not just maintenance but focus on locating and reporting on active situations. EJR's track record is very compelling as we have shown an exceptional record for anticipating the direction of future credit action.

Kroll Bond Rating Agency (KBRA) was established in an effort to restore trust in credit ratings by creating new standards for assessing risk and by offering accurate, clear and transparent ratings. KBRA is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (NRSRO). In addition, KBRA is recognized by the National Association of Insurance Commissioners (NAIC) as a Credit Rating Provider (CRP).

Since January 2014, all ESMA registered or certified CRAs are considered ECAIs across the whole European Economic Area.

Reference the Article 8 d of the EU Regulation on Credit Rating Agencies (as amended) on the use of multiple CRAs and ESMA's report dated December 22nd , 2014, all EACRA members registered with ESMA have less than 10% market share in the EU (measured against revenues).