7 August 2015

The European Banking Authority
One Canada Square (Floor 46)
London
E14 5AA

Submitted via: http://www.eba.europa.eu/

Copy to: **Klaus Wiedner and Michael Thom, European Commission, DG FISMA, Unit D1**

Dear Sirs

Response to the Consultation Paper on draft ITS on the mapping of ECAIs' credit assessment for securitisation positions under Article 270 of Regulation (EU) No 575/2013

AFME[1] and its members welcome this opportunity to respond to the Consultation Paper on draft ITS on the mapping of ECAI's credit assessment for securitisation positions under Article 270 of Regulation (EU) No 575/2013 (the "**Draft ITS**"). This response has been filed in the form of a letter and it seeks to summarise the key concerns and comments raised by members on the proposals relating to the mapping of ECAI's ratings.

Executive summary

- We note that the mappings proposed for the existing ECAIs reflect the mappings that have been assigned to these ECAIs in accordance with the 2006 (reviewed in 2010) CEBS mapping. AFME and its members believe that, in the light of current regulatory changes affecting securitisations, a period of stability in the area of credit assessment mapping is desirable. Therefore, we are broadly in agreement with the "status quo" approach the EBA has adopted in its Draft ITS. AFME members also welcome the possibility to use credit ratings of the newer ECAIs.

- We have however some practical questions in relation to the proposals, specifically with regard to the review and monitoring process and the consistency of rating notches.

[1] AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76

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- Lastly, while we understand that this is not an issue that can be addressed in the context of this Draft ITS, the recognition of securitisation in the LCR (as level 2B assets) is linked to the EBA's ECAI mapping. As the text of the LCR currently stands, there is an inequality of treatment between SA and IRB banks that should be addressed though a corrigendum of the LCR as a matter of urgency.

Detailed comments

Review and monitoring process

Under the Draft ITS, the EBA proposes to monitor the appropriateness of the assigned mappings (on the basis of ratings information reported in the ESMA CEREP database) and to review the overall approach to the mapping of securitisation ratings by 2018. We welcome these proposals and we appreciate that it is too early to specify any details in relation to the practicalities. Nonetheless, we strongly recommend that the EBA informs the industry, at the appropriate time, how this process would work in practice and that the industry be consulted if any changes to the regime are proposed.

With regard to the future review of the overall approach to the mapping of securitisation ratings, we would today like to note that the EBA should address the issue of the inconsistencies which have been created by the changes in ECAIs' rating methodologies. Furthermore, we note that the current mapping approach may result in a scenario where different asset classes with different risks and different default rates will be mapped in the same credit quality steps and thus will be weighted with the same risk weight.

We believe that the above mentioned issues are important and therefore should be taken into account once the review process begins.

Consistency of the rating notches

With regard to the rating notches in the mapping tables (Draft ITS Annexes 1 and 2), we would respectfully point out that these are not entirely correct; namely the tables are inconsistent in their inclusion of the notches within credit quality steps. For example, under the standardised approach, DBRS ratings for credit quality step 2 merely state 'A', yet under the IRB approach credit quality step 2 covers all the notches within the associated rating, i.e. AA(H) to AA(L); similarly, the Kroll short term rating mapping to credit quality step 1 under the standardised approach is K1+ and K1, but for DBRS it merely states R-1 and does not include notches; the rating notches are inconsistent as well within the 'all other' credit quality step category, referring to '*below*' given grade in Annex 2 and to all the rating grades in Annex 1.

It is not therefore apparent whether a credit quality step covers all notches, which we believe should be the case. It would be helpful to firms if a consistent approach to the inclusion of notches were taken across the tables, thus we kindly ask the EBA to provide a confirmation or clarification in this matter.

Inconsistency of treatment between SA and IRB banks for credit quality step 1 securitisations in the LCR.

The analysis of this Draft ITS together with the LCR Delegated Act[2] has brought to our attention a significant issue regarding the eligibility of securitisations in the liquidity buffer. It is our concern that a significant portion of senior ABS, effectively those rated AA, may not qualify as high quality liquid assets ("HQLA") (Level 2b securitisations) for banks using the Internal Ratings-Based (IRB) methodology.

Indeed, one of the eligibility criteria under Article 13 of the LCR Delegated Act is that:

"the position has been assigned a credit assessment by a nominated ECAI which is at least credit quality step 1 in accordance with Articles 251 or 261 of Regulation (EU) No 575/2013 or the equivalent credit quality step in the event of a short term credit assessment"

However, the credit quality step 1 is defined in the Draft ITS as follows:

- For banks using the Standardised Approach (the **"SA banks"**), a rating of AA- or higher (from Moody's/S&P/Fitch/DBRS)

- For banks using the Rating Based Method (the **"IRB banks"**), a rating of AAA only (from Moody's/S&P/Fitch/DBRS).

Consequently, the Draft ITS imply that bonds with a (lower) rating of AA- to AA+ qualify as HQLA for SA banks, while such bonds will be ineligible for more sophisticated IRB banks.

As currently drafted, this causes a major impediment for bank demand for these assets. In particular, RMBS/ABS from peripheral EU countries are affected, as none are rated AAA due to sovereign ceiling constraints which are used by some credit rating agencies. If the text of the LCR and the ECAIs' mappings remain unchanged, this will result in the complete elimination of all Italian and Spanish RMBS from the LCR liquidity buffers of IRB banks. Other sectors, such as SME ABS, will also be affected, where almost 50% of potentially eligible ABS may be excluded.

This exclusion of a large number of bonds from LCR eligibility may be an unintended anomaly in the LCR Delegated Act. Nevertheless, it is one that could significantly deter demand for securitisation in the affected countries and should be corrected as soon as possible. We therefore request that the EBA and European Commission initiate a corrigendum process to address this error in the text of the Delegated Act for IRB banks. We consider this to be particularly important given the positive steps taken by the Commission to introduce greater recognition of securitisation in the LCR and in general to remove regulatory obstacles to the revival of the Securitisation Market in Europe as part of the Capital Markets Union.

[2] Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions

Thank you again for the opportunity to provide our views on the Draft ITS. We would be pleased to discuss any of these comments in further detail, or to provide any other assistance that would help facilitate your review and analysis. If you have any questions, please do not hesitate to contact Anna Bak (anna.bak@afme.eu; +44 (0)20 77 439 314)

Yours faithfully

Anna Bak
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