To
Basel Committee on Banking Supervision

Submitted via BIS website

March 27th, 2015

Reference: Consultative Document "Standards: Revisions to the Standardized Approach for credit risk" dated December 22nd, 2014

Dear Sirs,

With reference to the publication of the above consultation, we are pleased to submit the response of our Association, which currently represents 9 ESMA registered CRAs, 1 ESMA certified CRA and 4 CRAs recognized according to national legislation in Russia, Switzerland and Turkey.

The objectives for the review of the Standardised Approach ("SA") include to "ensure that the SA approach is appropriately calibrated to reflect to a reasonable extent the riskiness of exposures" and "to reduce reliance on external credit assessments by providing alternative measures for risk assessment, where possible"[1].

The consultation paper proposes wide-ranging changes to the current SA and includes several new measures to define credit risks in different asset classes. As all questions raised in the Consultation Paper relate directly to these new measures, EACRA retains from providing direct responses on the selected indicators as we deem that the respective, concerned stakeholders will do it directly in a far more detailed manner. In general terms, the proposed new measures are either based on financial statements information (capital adequacy ratio, leverage, DSCR) or on expert valuation (eg. Loan to Value) – as long as the accounting standards are not fully harmonized and a certain degree of accounting choices remain, these new ratios are equally subject to different interpretations.

EACRA is clearly supporting the general principle to reduce overreliance on credit ratings, meaning sole and mechanistic reliance, without any additional, ad hoc credit assessment performed autonomously by users of rating services. At the same time, EACRA would like to highlight that replacing external credit ratings with a combination of simple risk drivers may also result in mechanistic reliance on the new risk drivers, including pro-cyclicality and heard behavior. In May 2014, in its stock-taking exercise on the FSB 2010 Principles on Reducing Reliance on CRAs, the FSB stated that "National authorities and financial entities should guard against the temptation to adopt a small number of alternative measures for assessing creditworthiness in place of CRA ratings, which can result in substituted procyclicality and herd behaviour"[2].

[1] See page 3 of the Consultation Document
[2] See "Thematic Review of the FSB Principles for Reducing Reliance on CRA Ratings" dated May 12th, 2014 available at the FSB website: http://www.financialstabilityboard.org/publications/r_140512.htm

Removing all references to credit ratings ignores that several jurisdictions have adopted specific regulation on credit rating agencies. While up to the financial crisis credit ratings were largely an unregulated activity, in Europe ESMA has now substantial regulatory and supervisory powers on CRAs in order to ensure that registered CRAs comply with the stringent requirements of the CRA Regulation. ESMA may sanction and fine CRAs, or even withdraw the registration, in case of substantial breaches of applicable regulation. In particular, the Regulation improved significantly disclosure on credit ratings and their methodologies. In Europe, the CEREP database maintained by ESMA and the expected introduction of European Rating Platform will enable users to compare credit rating issued by different CRAs and to evaluate the performance of their rating models.

One of the main objectives of the EU regulation on CRAs is to promote competition across markets. The CRD IV regulation supports this objective by introducing automatic recognition of all registered or certified CRAs as ECAI. Hence, the coverage of exposures by external credit rating is expected to increase at least in specific market segments or asset classes.

Last but not least, credit ratings assess credit risk integrating quantitative and qualitative information and rely on the analytical contribution of professional (expert) credit rating analysts. This approach differentiates credit ratings from credit scorings or any other credit risk assessment based on quantitative indicators only.

In order to reduce systemic risk, cliff effects and herd behavior, we propose to adopt the following solutions:

- **Recognize more ECAIs**: while there are 100 + rating agencies globally, only few CRAs are registered in 2 or more jurisdictions. On a global level, there are only 3 agencies, which are often referred as “international rating agencies”, having the ECAI status. Next to the European Union, other positive examples include Hong Kong (which accepts Indian Credit Rating Agencies as ECAI) or Malaysia (accepting Japanese ones). We propose that this practice is being expanded to further players and to/by other jurisdictions. An international cross-recognition of the ECAI status is, in our opinion an important consideration in order to increase competition in the rating market.

- **allowing alternative credit risk measurement approaches**: instead of removing reference to external ratings, credit ratings could be used in parallel to other measures. While outside of the scope of this consultation paper, we would like to cite the current provisions regarding sovereign risks, which allow the use of ECAI ratings OR the OECD Country Risk Classification. Why not combining these two sources of information to derive Risk Weights? Both sources have currently their assessments mapped into the 5 Risk Weights.

- **defining different ways of using several ECAIs**: currently the SA proposes only one way of using several ECAIs, thereby potentially creating a systemic risk out of the uniform application of the same rules. We therefore propose that the new SA approach should provide for different methods to combine several ECAI ratings (eg using average rating, median rating, exclude highest/lowest ratings and take average). In the nomination of ECAIs for the calculation of risk weigthed assets, the bank would “select” one of the approaches according to its own risk appetite/experience and thereafter apply it on a constant basis. Having several ways of calculating risk weighted assets contributes to a diversity of assessments and mitigates cliff effects.

We would like to thank you for the opportunity to provide our views. We remain at your full disposal for any further clarification and information and hope that our contribution is seen as a valuable input in improving the SA and correcting the identified weaknesses.

Sincerely yours

Thomas Missong	Adolfo Estevez Beneyto
EACRA President	EACRA Secretary General

About EACRA

The European Association of Credit Rating Agencies ("EACRA"), registered in Paris, was established in November 2009. The Members of the Association have very different business models (issuer-pays, investor-pays, hybrid and special models) while assigning ratings. The Members of the Association currently originate from 11 countries and include the following companies:

ESMA registered Credit Rating Agencies

A.M. Best Europe - Rating services Limited (AMBERS) is a subsidiary of A.M. Best Inc who have been providing ratings to the Insurance Sector since 1899. AMBERS' rating coverage includes regional, national and global insurers located throughout Europe, the Middle East and Africa.

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.

Scope was founded as an independent rating agency in Berlin, Germany, in 2002. The company is specialized in ratings and analysis of SMEs, bonds, certificates and funds across Europe.

ESMA certified Credit Rating Agencies

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).

CRAs registered or recognized according to national legislation outside of the European Union

Fedafin AG : is registered with the Swiss Financial Markets Authority and acts as rating provider to the Swiss stock exchange

JCR Eurasia is an international credit rating institution based in Turkey.

National Rating Agency (NRA) is one of the leading independent rating agencies in Russia. As of today National Rating Agency has assigned ratings to over 750 leading Russian and international companies.

RusRating is a credit rating agency based in Moscow, with sister agencies in Armenia and Kazakhstan. It is accredited with the Ministry of Finance of the Russian Federation.

Other EACRA members

Ellisphere: French leader in business & marketing information and credit management solutions, providing a large range of tools and solutions to secure companies' supply chain financing and improve their development.

Informa is the Marketing, Financial and Business Information leading company in Spain, offering currently more than 3.7 million online scores on Spanish companies

Informa D&B is the Marketing, Financial and Business Information leading company in Portugal, offering currently more than 820K online scores on Portuguese companies

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).