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## EACRA welcomes adoption of Implementing Regulations regarding the mapping of ECAI ratings in the European Union

The adoption of these Implementing Regulations by the European Commission marks a very important milestone for Credit Rating Agencies (“CRAs”) in Europe as it substantially expands the choice of External Credit Assessment Institutions (“ECAIs”) to investors and issuers alike.

Out of currently 31 ECAIs of which 26 CRAs registered with the European Securities and Markets Authority (“ESMA”) <sup>1</sup>, 4 CRAs certified by ESMA<sup>2</sup>, and 1 National Central Bank exempted from registering as CRA<sup>3</sup>, the EC Implementing Regulations cover 26 ECAIs in total<sup>4</sup>. In doing so, it provides for 15 CRAs the first time mapping of ratings and extends the scope of the mapping to the whole European Economic Area for all.

For the vast majority of CRAs, the same mapping of ratings applies, putting nearly all CRAs on an equal footing with the dominant players<sup>5</sup>:

Credit Quality Step	1	2	3	4	5	6
<b>General Mapping</b>	AAA, AA	A	BBB	BB	B	CCC and below
"General Mapping" applies to the following CRAs (in alphabetical order, <b>first time mapping</b> ): <b>AM Best</b> , ARC Ratings, <b>Assekurata</b> , <b>Axesor</b> , <b>BCRA</b> , <b>Capital Intelligence Ratings</b> , Creditreform Ratings, <b>CRIF</b> , <b>Dagong Europe</b> , DBRS, <b>EuroRating</b> , Euler Herms Rating, Fitch Ratings, Japan Credit Rating Agency, <b>Kroll Bond Rating Agency</b> , Moody's Investor Services, Standard&Poor's Ratings Services, <b>Scope Ratings</b> , <b>Spread Research</b> , <b>The Economist Intelligence Unit</b>						
<b>European Rating Agency</b>		AAA, AA, A	BBB	BB	B	CCC, CC, C, D
<b>Feri</b>	AAA, AA	A		BBB, BB	B	CCC, CC, D
<b>GBB</b>	AAA, AA		A, BBB	BB	B	CCC, CC, C, D
Banque de France	3++	3+, 3	4+	4, 5+	5, 6	7, 8, 9, P
Cerved Rating Agency	A1.1, A1.2, A1.3	A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
ICAP		AA, A	BB, B	C, D	E, F	G, H

<sup>1</sup> The list of ESMA registered or certified CRAs is available here: <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>

<sup>2</sup> Certified CRAs are CRAs based outside of the European Union and are registered according to legislation equivalent to the European framework on CRAs. Ratings on EU issuers from certified CRAs are not usable for regulatory purposes in the European Union.

<sup>3</sup> The only National Central Bank being exempted from registering as CRA is Banque de France. The list is available at the European Banking Authorities site (bottom of page): <http://www.eba.europa.eu/regulation-and-policy/external-credit-assessment-institutions-ecai>

<sup>4</sup> No mapping of ratings is currently available for the following registered or certified CRAs: Egan-Jones Ratings Company, HR Ratings de Mexico, INC Ratings, modeFinance and Ratingagentur ExpertRA

<sup>5</sup> Only Long term rating scales. Some CRAs may use “aaa” or “Aaa” instead of the “AAA” used here. The Implementing Regulation may map several long-term rating scales and also short term ratings. Link to Corporate Finance Mappings (which also applies to Sovereign Ratings and covered bonds): [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2016.275.01.0003.01.ENG&toc=OJ:L:2016:275:FULL](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.275.01.0003.01.ENG&toc=OJ:L:2016:275:FULL)

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Additionally, the Implementing Regulations introduces the mapping of ratings under the Solvency II framework applicable to insurance companies<sup>6</sup>.

For the Structured Finance segment, the Implementing Regulation extends the number of ECAIs from 4 to 11 CRAs, all agencies having received the same mapping<sup>7</sup>.

Last but not least, on May 17<sup>th</sup>, 2016, The European Banking Authority (“EBA”)<sup>8</sup> published its decision regarding unsolicited credit assessments. For 22 out of the 26 ECAIs having received a mapping<sup>9</sup>, EBA confirmed that these do not differ in quality from solicited ratings and may therefore be used for regulatory purposes.

Now that the mapping of ratings is available, exposures rated by European CRAs having received a first time mapping will no longer be considered unrated but will be treated according to the risk weights defined under the applicable sectoral legislation for the different types of exposures.

We call on issuers, advisors and originators to familiarize themselves with the European rating agencies. In view of Article 8d of the EU Regulation on Credit Rating Agencies 1060/2009 (as amended), issuers considering to engage 2 CRAs shall consider appointing one CRA having less than 10% market share measured against turnover<sup>10</sup>. Since the supervision of rules relating to issuers lays with National Competent Authorities, we note that several EU Member States have introduced specific sanctions for non-compliance with Article 8d<sup>11</sup>

We call on banks, insurances and investors to review their guidelines relating to ECAIs. Banks using the Standardized Approach shall investigate the opportunity to nominate more ECAIs for the calculation of risk weighted assets, as this reduces reliance on only 1 or few assessments, reduces cliff effects and may stabilize risk weighted assets over time. Additionally, several European CRAs provide ratings for market segments not covered by the dominant CRAs.

We call on National Competent Authorities throughout the European Economic Area to update their relevant websites and guidelines regarding the mapping of ECAI ratings as soon as possible.

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<sup>6</sup> Link to Solvency II mapping: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2016.275.01.0019.01.ENG&toc=OJ:L:2016:275:FULL](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.275.01.0019.01.ENG&toc=OJ:L:2016:275:FULL)

<sup>7</sup> Link to SF mapping: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2016.275.01.0027.01.ENG&toc=OJ:L:2016:275:FULL](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.275.01.0027.01.ENG&toc=OJ:L:2016:275:FULL)

<sup>8</sup> The decision by EBA is available here: <http://www.eba.europa.eu/regulation-and-policy/external-credit-assessment-institutions-ecai/decision-on-the-use-of-unsolicited-credit-assessments>

<sup>9</sup> The following 4 Credit Rating Agencies don't provide unsolicited ratings: AM Best, Assekurata, Creditreform Rating, Dagong Europe.

<sup>10</sup> With reference to ESMA's report on CRAs market shares dated December 18th, 2015, all CRAs except Fitch Ratings, Moody's Investors Services and Standard & Poor's Ratings have less than 10% market share.

<sup>11</sup> According to our research, fines may reach EUR 30.000 in Austria and Spain, EUR 100.000 in Italy, EUR 250.000 in Luxembourg, EUR 350.000 in Cyprus and EUR 500.000 in The Netherlands.

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## About EACRA

The European Association of Credit Rating Agencies (“EACRA”), registered in Paris, was established in November 2009. The Members of the Association 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.

**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.

**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** is an independent credit rating agency founded in Berlin, Germany, in 2002. The company is specialized in ratings and analysis of corporate bonds, financial institutions, structured finance, and alternative investment funds (AIF).

### 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

**Credit Rating Agency (CRA) Limited** operates in Zambia and is licensed by the Securities and Exchange Commission of Zambia. It commenced operations in September 2014 and is the first active credit rating service provider in Zambia. CRA rates private and public sector entities, and debt instruments.

**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.

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**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

The Members of the Association have very different business models (issuer-pays, investor-pays, hybrid and special models) while assigning ratings. Since January 2014, all ESMA registered or certified CRAs are considered ECAIs across the whole European Economic Area.

Reference Article 8 d of Regulation 1060/2009 on Credit Rating Agencies (as amended) on the use of multiple CRAs and ESMA's report dated December 18<sup>th</sup>, 2015, all EACRA members registered with ESMA have less than 10% market share in the EU (measured against revenues).