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# Consultation Paper

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Draft implementing technical standards amending Implementing Regulation (EU) 2016/1800 on the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC



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# 1. Responding to this consultation

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The ESAs invite comments on all proposals put forward in this paper.

Comments are most helpful if they:

- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/rationale proposed; and
- describe any alternative regulatory choices that the ESAs should consider.

## Submission of responses

Please send your comments to EIOPA by email to [CP-21-001@eiopa.europa.eu](mailto:CP-21-001@eiopa.europa.eu) until 05/03/2021 23:59 CET.

Contributions sent to a different email address, or after the deadline will not be processed.

## Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the ESAs' rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the ESAs' Board of Appeal and the European Ombudsman.

## Data protection

The protection of individuals with regard to the processing of personal data by the ESAs is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the ESAs in the implementing rules adopted by their Management Board. Further information on data protection can be found under the [Legal notice section](#) of the EBA website and under the [Legal notice section](#) of the EIOPA website and under the [Legal notice section](#) of the ESMA website.

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## 2. Executive Summary

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The Solvency II Delegated Regulation<sup>1</sup> establishes in Article 4(1) that insurance or reinsurance undertakings may use an external credit assessment for the calculation of the Solvency Capital Requirement in accordance with the standard formula only where it has been issued by an External Credit Assessment Institution (ECAI) or endorsed by an ECAI in accordance with the CRA Regulation<sup>2</sup>. According to Article 109a(1) of Solvency II<sup>3</sup>, the Implementing Regulation has to specify the allocation of relevant credit assessments of ECAIs to the credit quality steps set out in Article 3 of the Solvency II Delegated Regulation. The Implementing Regulation is based on the draft implementing technical standards (ITS) submitted by the Joint Committee (JC) of the European Supervisory Authorities (ESAs).

According to Article 136(1) of the Capital Requirements Regulation ('CRR')<sup>4</sup>, 'mappings' should be specified for all ECAIs, which are defined in Article 4(98) of the CRR as Credit Rating Agencies (CRAs) registered or certified in accordance with the CRA Regulation or a central bank issuing credit ratings that are exempt from the application of CRA Regulation. By way of Article 111(1)(n) of Solvency II, which stipulates cross-sectoral consistency with reference to the CRR, the same requirements apply within the scope of Solvency II.

On 11 October 2016 the Commission adopted the Implementing Regulation (EU) 2016/1800 laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC (Solvency II) ('the Implementing Regulation')<sup>5</sup>. The Annex of the Implementing Regulation provided mapping tables for 26 ECAIs, which covered one central bank and all the CRAs registered or certified in accordance with the CRA Regulation at the time the ESAs started preparing the draft ITS.

This Implementing Regulation was subsequently amended on 24 April 2018<sup>6</sup>, to incorporate mappings for five new ECAIs, that had been registered or certified after the ESAs submitted the original draft ITS to the Commission, and to remove references to a de-registered ECAI, thereby providing in total mappings for 30 ECAIs. Further, a second amendment was adopted on 4 June 2020<sup>7</sup> to reflect a

<sup>1</sup> Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 12, 17.01.2015, p. 1-797).

<sup>2</sup> Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1-33).

<sup>3</sup> Directive 2009/138/EC of 25 November 2009 of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1-155).

<sup>4</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1-337).

<sup>5</sup> Commission Implementing Regulation (EU) 2016/1800 of 11 October 2016 (OJ L 275, 12.10.2016, p.19-26).

<sup>6</sup> Commission Implementing Regulation (EU) 2018/633 of 24 April 2018 (OJ L 105, 25.4.2018, p. 14-20).

<sup>7</sup> Commission Implementing Regulation (EU) 2020/744 of 4 June 2020 (OJ L 176, 5.06.2020, p. 4-10).

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monitoring exercise on the adequacy of existing mappings, which was based on objective quantitative and qualitative information collected since the original mappings were produced.

Since the second amendment to the draft ITS on Mapping was developed, two additional CRAs have been registered in the EU<sup>8</sup> and ESMA has withdrawn the registration of a number of CRAs<sup>9</sup>. Further, the JC of the ESAs is required to monitor the existing mappings and has therefore analysed whether the mapping of existing ECAIs remains appropriate. The review has identified that the existing ITS must be updated for 10 ECAIs, either as a result of i) changes in the allocation of Credit Quality Steps due to an updated assessment of risk in line with the EBA methodology, based on additional information collected since the mapping was produced, or ii) the need to introduce mappings for new credit rating types subsequently introduced by existing ECAIs.

The Implementing Regulation will therefore need to be amended accordingly. The revised draft ITS will propose amendments to the Mapping tables specified in Annex of Implementing Regulation (EU) 2016/1800. The following changes will be made:

- Introduction of mappings for the two newly established ECAIs (Nordic Credit Rating A.S. and Inbonis S.A.) and removal from the mapping tables of credit rating agencies that have lost ECAI status following their de-registration as a Credit Rating Agency under the CRA Regulation<sup>10</sup>
- Amendments due to the re-allocation of CQS (Creditreform Rating AG and GBB-Rating Gesellschaft für Bonitätsbeurteilung GmbH) and amendments due to new credit rating scales (ARC Ratings S.A., Axesor Risk Management SL, Banque de France, Cerved Rating Agency S.p.A., CRIF Ratings S.r.l., DBRS Ratings GmbH, ICAP S.A., Rating-Agentur Expert RA GmbH and S&P Global Ratings Europe Limited).

Consequently, this consultation paper seeks feedback regarding the proposed mappings for the 12 ECAIs identified in the current round of mappings' assessment by the 05.03.2021. Based on feedback received in this consultation, the Joint Committee will finalise and update the current ITS to ensure that the mappings reflect a correct and appropriate assessment of the rating scales of all existing ECAIs.

<sup>8</sup>Nordic Credit Rating AS and Inbonis SA.

<sup>9</sup> DG International Ratings SRL and INC Rating SP Zo.o.. Please see <https://www.esma.europa.eu/press-news/esma-news/dg-international-ratings-srls-cra-registration-withdrawn> and <https://www.esma.europa.eu/press-news/esma-news/inc-ratings-cra-registration-withdrawn>

<sup>10</sup> As per CRR Article 4(1) subparagraph 98, 'external credit assessment institution' or 'ECAI' means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009.

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### 3. Background and rationale

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#### The nature of ITS under EU law

These revised draft ITS are produced in accordance with Article 15 of Regulation (EU) No 1093/2010 (EBA regulation)<sup>11</sup>, Article 15 of Regulation (EU) No 1094/2010 (EIOPA Regulation)<sup>12</sup> and Article 15 of Regulation (EU) No 1095/2010 (ESMA Regulation)<sup>13</sup>.

#### Background to these revised draft ITS

##### Use of external credit assessments in Solvency II

Solvency II allows the use of external credit assessments of ECAIs for purpose of calculating technical provisions and the Solvency Capital Requirement (Article 44(4a)). This provision represents an element of risk-sensitivity and prudential soundness of the credit risk rules.

In line with the G-20 conclusions and the Financial Stability Board (FSB) principles for reducing reliance on external credit ratings the analysis behind the allocation of each ECAI and its regular monitoring over time should alleviate any mechanistic overreliance of the credit risk rules on external assessment, insurance and reinsurance undertakings are required to assess the appropriateness of external credit assessments as part of their risk management by using additional assessments wherever practicably possible in order to avoid any automatic dependence on external assessments (Article 44(4a) of Solvency II).

##### ECAIs and relevant external credit assessments

As stated in Article 4(1) of the Solvency II Delegated Regulation, external credit assessments can only be used by insurance and reinsurance undertakings if they have been issued or endorsed by an ECAI in accordance with the CRA Regulation. These draft ITS specify the allocations that should be used for determining the credit risk for the purpose of calculating the Solvency Capital Requirement with the standard formula.

<sup>11</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p.12).

<sup>12</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

<sup>13</sup> Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

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ECAIs are defined as credit rating agencies registered or certified in accordance with the CRA Regulation or any central bank issuing credit ratings that are exempt from the application of CRA Regulation.

Since the second amendment to the draft ITS on Mapping was developed:

- Two additional CRAs have been registered in the EU: Nordic Credit Rating AS and Inbonis SA.
- A number of credit rating agencies have lost ECAI status following their de-registration as a Credit Rating Agency under the CRA Regulation<sup>14</sup>.

Pursuant to second subparagraph of Article 136(1) of the CRR, the adequacy of the mapping should be reviewed where necessary. The performance of the mappings has been monitored based on the additional quantitative information collected after the Implementing Regulation entered into force and on the qualitative developments registered by the ECAIs. As a result of this monitoring exercise, the Implementing Regulation needs to be amended to reflect developments on credit rating scales and the allocation of credit rating types for those ECAIs that have experienced changes in the quantitative or qualitative factors of their credit assessments.

- Amendments due to re-allocation of credit quality steps: Creditreform Rating AG and GBB-Rating Gesellschaft für Bonitätsbeurteilung GmbH
- Amendments due to changes in credit rating scales: ARC Ratings S.A., Axesor Risk Management SL, Banque de France, Cerved Rating Agency S.p.A., CRIF Ratings S.r.l., DBRS Ratings GmbH, ICAP S.A., Rating-Agentur Expert RA GmbH and S&P Global Ratings Europe Limited.

### Structure of the ITS

These revised draft ITS amend the Annex of the Implementing Regulation to take into account the performance of the mappings and their adequacy. This is in line with the second subparagraph of Article 136(1) of the CRR, which states that revised draft implementing technical standards shall be submitted where necessary. The requirement of Article 111(1)(n) of Solvency II obliges the external credit assessment used by insurance and reinsurance undertakings for the Solvency Capital Requirement (SCR) calculation to be consistent with the aforementioned CRR provision. Individual amended mapping reports are also published [on the EBA website](https://www.esma.europa.eu/supervision/credit-rating-agencies/risk).

<sup>14</sup> Please refer to the ESMA website for a list of de-registered or de-certified CRAs: <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>



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#### 4. Draft implementing technical standards amending Implementing Regulation (EU) 2016/1800 on the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC

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## COMMISSION IMPLEMENTING REGULATION (EU) No .../...

of **XXX**

### **amending Implementing Regulation (EU) 2016/1800 laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC of the European Parliament and of the Council**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2009/138/EC of 25 November 2009 of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)<sup>15</sup>, and in particular Article 109a(1), third subparagraph, thereof,

Whereas:

- (1) Following the latest amendments, by Commission Implementing Regulation (EU) 2020/744<sup>16</sup>, to the Annex to Implementing Regulation (EU) 2016/1800 the quantitative and qualitative factors underpinning the credit assessments of some mappings have changed. In addition, some ECAIs have extended their credit assessments to new market segments, resulting in new rating scales and new credit rating types. It is therefore necessary to update the mappings of the ECAIs concerned.
- (2) After the adoption of Implementing Regulation (EU) 2020/744, two credit rating agencies have been registered in accordance with Regulation (EU) No 1060/2009 of the European Parliament and of the Council<sup>17</sup>, while ECAIs for which Commission Implementing Regulation (EU) 2016/1799<sup>18</sup> provided a mapping have been deregistered. It is therefore necessary to provide a mapping for the newly registered ECAIs and to remove the mapping for the deregistered ECAIs.
- (3) This Regulation is based on the draft implementing technical standards submitted by the European Banking Authority (the EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) jointly (the European Supervisory Authorities) to the Commission.

<sup>15</sup> OJ L 335, 17.12.2009, p. 1.

<sup>16</sup> Commission Implementing Regulation (EU) 2020/744 of 4 June 2020 amending Implementing Regulation (EU) 2016/1800 laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ L 176, 5.6.2020, p. 4).

<sup>17</sup> Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1).

<sup>18</sup> Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 275, 12.10.2016, p. 3).



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- (4) The European Supervisory Authorities have conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council<sup>19</sup>; the opinion of the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council<sup>20</sup>; and the opinion of the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council<sup>21</sup>.
- (5) Implementing Regulation (EU) 2016/1800 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

*Article 1*  
***Amendment to Implementing Regulation (EU) 2016/1800***

The Annex to Implementing Regulation (EU) No 2016/1800 is replaced by the text in the Annex to this Regulation.

*Article 2*  
***Entry into force***

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*For the Commission*  
*The President*

*Ursula von der Leyen*

<sup>19</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p.12).

<sup>20</sup> Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

<sup>21</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

## ANNEX

## Allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps

Credit quality step	0	1	2	3	4	5	6
<i>ACRA Europe a.s (formerly European Rating Agency a.s.)</i>							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term rating scale		S1		S2	S3, S4, NS		
<i>A.M. Best (EU) Rating Services B.V.</i>							
Long-term issuer credit ratings scale	aaa	aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, e, f, s
Long-term issue ratings scale	aaa	aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, s
Financial strength ratings scale		A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term issuer ratings scale		AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4, d, e, f, s		
Short-term issue ratings scale		AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4, d, s		
<i>ARC Ratings S.A.</i>							
Medium and long-term issuers rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Medium and long-term issues rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D



Claims paying ability rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, R
Short-term issuers rating scale		A-1+	A-1	A-2, A-3	B, C, D		
Short-term issues rating scale		A-1+	A-1	A-2, A-3	B, C, D		
<i>ASSEKURATA Assekuranz Rating-Agentur GmbH</i>							
Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC/C, D
Short-term corporate rating scale		A++	A		B, C, D		
<i>Axesior Risk Management SL</i>							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D, E
Global short-term rating scale		AS1+	AS1	AS2	AS3, AS4, AS5		
<i>Banque de France</i>							
Global long-term issuer credit ratings scale		3++	3+, 3	4+	4, 5+	5, 6	7, 8, 9, P
Global NEC long-term issuer credit rating scale		1+	1, 1-	2+, 2, 2-	3+, 3, 3-, 4+, 4, 4-, 5+	5, 5-, 6+, 6, 6-	7, 8, P
<i>BCRA – Credit Rating Agency AD</i>							
Global long-term ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term ratings scale		A-1+	A-1	A-2, A-3	B, C, D		
Pension-insurance company long-term scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D

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Pension-insurance company short-term scale		A-1+	A-1	A-2, A-3	B, C, D		
Pension fund long-term scale	AAA pf	AA pf	A pf	BBB pf	BB pf	B pf	C pf
Guarantee fund long-term scale	AAA	AA	A	BBB	BB	B	C, D
Guarantee fund short-term scale		A-1+	A-1	A-2, A-3	B, C, D		
<i>Capital Intelligence Ratings Ltd</i>							
International long-term issuer rating scale	AAA	AA	A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
International long-term insurer financial strength rating scale	AAA	AA	A	BBB	BB	B	C,RS, SD, D
International short-term issuer rating scale		A1+	A1	A2, A3	B, C, RS, SD, D		
International short-term issue rating scale		A1+	A1	A2, A3	B, C, D		
International short-term insurer financial strength rating scale		A1+	A1	A2, A3	B, C, RS, SD, D		
<i>Cerved Rating Agency S.p.A.</i>							
Corporate long-term rating scale	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
Corporate short-term rating scale		S-1	S-2	S-3	V-1, R-1		
<i>Creditreform Rating AG</i>							
Long-term rating scale	AAA	AA	A		BBB	BB , B	C, SD, D



Long-term issue rating scale	AAA	AA	A		BBB	BB , B	C, D
Short-term rating scale	L1	L2		L3, NEL, D			
<i>CRIF Ratings S.r.l.</i>							
Long-term issuer rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D1S, D
Long-term issue rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, DS
SME rating scale		SME1, SME2		SME3	SME4	SME5, SME6	SME7, SME8
Short-term issuer rating scale		IG-1		IG-2	SIG-1, SIG-2, SIG-3, SIG-4		
Short-term issue rating scale		IG-1		IG-2	SIG-1, SIG-2, SIG-3, SIG-4		
<i>DBRS Ratings GmbH</i>							
Long-term obligations rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale		R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		
Financial Strength rating scale		AAA, AA	A	BBB	BB	B	CCC, CC, C, R
Expected loss rating scale		AAA(el), AA(el)	A(el)	BBB(el)	BB(el)	B(el)	CCC(el), CC(el), C(el)
<i>Egan-Jones Ratings Co.</i>							
Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D

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Short-term credit rating scale		A-1+	A-1	A-2	A-3, B, C, D		
Euler Hermes Rating GmbH							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, SD, D
EuroRating Sp. z o.o.							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Fitch Ratings							
Long-term issuer default ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations - Long-term ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C
Long-term international IFS ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C
Derivative counterparty ratings scale		AAA dcr, AA dcr	A dcr	BBB dcr	BB dcr	B dcr	CCC dcr, CC dcr, C dcr
Short-term rating scale		F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS ratings scale		F1+	F1	F2, F3	B, C		
GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
HR Ratings de México, S.A. de C.V.							



Global long-term rating scale	HR AAA(G)	HR AA(G)	HR A(G)	HR BBB(G)	HR BB(G)	HR B(G)	HR C(G)/HR D(G)
Global short-term rating scale	HR+1(G)	HR1(G)	HR2(G)	HR3(G)	HR4(G), HR5(G), HR D(G)		
ICAP S.A							
Global long-term issuer rating scale			AA, A	BB, B	C, D	E, F	G, H
Global long-term issue rating scale			AA, A	BB, B	C, D	E, F	G, H
INBONIS SA							
Long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Japan Credit Rating Agency Ltd							
Long-term issuer ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, LD, D
Long-term issue ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer ratings scale		J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit ratings scale		J-1+	J-1	J-2	J-3, NJ, D		
Kroll Bond Rating Agency Europe							
Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale		K1+	K1	K2, K3	B, C, D		
modeFinance S.r.l.							



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Global long-term rating scale	A1	A2	A3	B1	B2	B3	C1, C2, C3, D
<i>Moody's Investors Service</i>							
Global long-term rating scale	Aaa	Aa	A	Baa	Ba	B	Caa, Ca, C
Global short-term rating scale		P-1	P-2	P-3	NP		
<i>Nordic Credit Rating Agency AS</i>							
Long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D, SD
<i>QIVALIO SAS (formerly Spread Research)</i>							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term rating scale		SR0		SR1, SR2	SR3, SR4, SR5, SRD		
<i>Rating-Agentur Expert RA GmbH</i>							
International long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D, E
International reliability rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D, E
International short-term rating scale		RA1+	RA1	RA2, RA3	RA4, RA5, C, D		
<i>Scope Ratings AG</i>							
Long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term rating scale		S-1+	S-1	S-2	S-3, S-4		

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<i>S&amp;P Global Ratings</i>							
Long-term issuer credit ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Insurer financial strength ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, SD/D, R
Long-term Financial Institution Resolution Counterparty Ratings	AAA	AA	A	BBB	BB	B	CCC, CC, SD, D
Mid-Market Evaluation ratings scale			MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit ratings scale		A-1+	A-1	A-2, A-3	B, C, R, SD/D		
Short-term issue credit ratings scale		A-1+	A-1	A-2, A-3	B, C, D		
Short-term Financial Institution Resolution Counterparty Ratings		A-1+	A-1	A-2, A-3	B, C, SD/D		

## 5. Accompanying documents

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### 5.1 Cost-Benefit Analysis/Impact Assessment

#### Procedural issues

In accordance with the Regulations of the three ESAs, an analysis of costs and benefits is conducted when drafting ITS, unless the analysis is disproportionate in relation to the scope and impact of the draft ITS concerned.

#### Problem definition

Solvency II permits the use of external credit ratings for determining own fund requirements. The Solvency II Delegated Regulation establishes in Article 4(1) that insurance or reinsurance undertakings may use an external credit assessment for the calculation of the Solvency Capital Requirement in accordance with the standard formula only where it has been issued by an External Credit Assessment Institution (ECAI) or endorsed by an ECAI in accordance with the CRA Regulation.

The usage of external credit ratings for determining own fund requirements requires a mapping between the credit assessments issued by an ECAI and the Credit Quality Steps (CQS) of the standard formula (Article 109a(1) of Solvency II).

Mappings should be made available for all existing credit rating agencies registered or certified in accordance with the CRA Regulation and to central banks producing ratings that are not subject to that Regulation.

Recital 24 of Commission Implementing Regulation (EU) 2016/1799<sup>1</sup> points out that, given the fact that compliance with the CRR is required at all times, it is necessary to monitor the performance of the mapping on a continuous basis.

#### Objectives

On 11 October 2016 the Commission adopted the Implementing Regulation (EU) 2016/1800 ('the Implementing Regulation')<sup>2</sup> laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC (Solvency II).

<sup>1</sup> Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 275, 12.10.2016, p. 3).

<sup>2</sup> Regulation (EU) 2016/1800 (OJ L 275, 12.10.2016, p.19-26).

[http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2016.275.01.0019.01.ENG&toc=OJ:L:2016:275:TOC](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.275.01.0019.01.ENG&toc=OJ:L:2016:275:TOC)

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The Implementing Regulation provided mapping tables for 26 ECAIs, which covered one central bank and all the CRAs registered or certified in accordance with the CRA Regulation at the time the ESAs started preparing the draft ITS. Since then, ESMA has withdrawn the registration of one CRA and five additional CRAs have been registered or certified in accordance with the CRA. These changes were reflected via the proposed amendments to the original ITS, that were adopted by the Commission on 24 April 2018<sup>3</sup>. Further, a second amendment was adopted on 04 June 2020<sup>4</sup> to reflect a monitoring exercise on the adequacy of existing mappings, which was based on objective quantitative and qualitative information collected since the original mappings were produced.

The JC of the ESAs is required to monitor the existing mappings and has therefore analysed whether the mapping of existing ECAIs remains appropriate. A review has identified that the existing Implementing Regulation must be amended for a number of ECAIs based on the monitoring exercise, either as a result of i) changes in the existing mappings due to an updated assessment of the risk in line with the EBA methodology, or ii) the need to introduce mappings for new credit rating types subsequently introduced by existing ECAIs.

The objective of the present revised draft ITS is to amend the Implementing Regulation to include for changes in the mappings that have occurred since the second amendment to the draft ITS on Mapping was produced. The revised draft ITS will amend Annex III on the mapping tables in order to:

- Assign mappings for the two newly registered ECAIs: Nordic Credit Rating AS and Inbonis SA.
- Remove references to entities that have been de-registered as a Credit Rating Agency under the CRA Regulation and therefore no longer meet the ECAI definition
- Reflect amendments due to re-allocation of credit quality steps: Creditreform Rating AG and GBB-Rating Gesellschaft für Bonitätsbeurteilung GmbH
- Register amendments due to changes in credit rating scales: ARC Ratings S.A., Axesor Risk Management SL, Banque de France, Cerved Rating Agency S.p.A., CRIF Ratings S.r.l., DBRS Ratings GmbH, ICAP S.A., Rating-Agentur Expert RA GmbH and S&P Global Ratings Europe Limited.

<sup>3</sup> Commission Implementing Regulation (EU) 2018/633 of 24 April 2018 (OJ L 105, 25.4.2018, p. 14–20).

<sup>4</sup> Commission Implementing Regulation (EU) 2020/744 of 4 June 2020 (OJ L 176, 5.06.2020, p. 4–10).

Figure 1: Newly registered ECAIs

ECAI	Country of residence	Status
Nordic Credit Rating AS	Norway	Registered
Inbonis SA	Spain	Registered

Figure 2: Mapping amendments from the monitoring exercise

ECAI	Amendments to:	
	Credit Quality Steps Allocation	New credit rating scales
ARC Ratings S.A.	No	Yes
Axesior Risk Management S.L.	No	Yes
Banque de France	No	Yes
Cerved Rating Agency S.p.A.	No	Yes
Creditreform Rating AG	Upgrade	No
CRIF Ratings S.r.l.	No	Yes
DBRS Ratings GmbH	No	Yes
GBB-Rating Gesellschaft für Bonitätsbeurteilung GmbH	Upgrade	No
ICAP S.A.	No	Yes
Rating-Agentur Expert RA GmbH	No	Yes
S&P Global Ratings Europe	No	Yes

Notwithstanding the principle stated in the previous paragraph, the G-20 conclusions and the Financial Stability Board (FSB) principles for reducing reliance on external credit ratings should also be taken into account. Therefore, although the analysis behind the 'mapping' of each ECAI and its regular monitoring over time should alleviate any mechanistic overreliance of the credit risk rules on external ratings, institutions should be encouraged to use internal ratings rather than external credit ratings,

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even for the purpose of calculating own fund requirements as a way to reduce overreliance on external credit ratings.

These ITS will contribute to a common understanding among institutions and the EU's national competent authorities about the methodology that the Joint Committee should use to specify the 'mappings'. Given that the mappings of any ECAI will be equally applicable in all EU Member States, these ITS will also contribute to ensure a high level of harmonisation and consistent practice in this area and contribute to achieving the objectives in the CRR of enhancing the risk sensitivity of the credit risk rules.

### Technical options considered

The elements that describe the degree of risk expressed by a credit assessment of an ECAI (quantitative and qualitative factors) and the levels of risk that should be used to define each credit quality step ("benchmarks") remain unchanged with respect to the Implementing Regulation.

The monitoring triggers are based on the quantitative and qualitative factors specified in the Implementing Regulation. Additionally, ECAIs may have extended their credit assessments to new segments and the associated new rating scales and/or new credit rating types will need to be reflected accordingly in the mapping reports.

Quantitative factors to calibrate the mapping are drawn from statistics on the rating activity and the rating performance of ECAIs produced by ESMA (CEREP<sup>5</sup>), based on the information provided by the ECAIs as part of their reporting obligations<sup>6</sup>. Currently, the latest CEREP data available cover up to reference date December 2018.

Qualitative factors are taken into account to produce the mapping, as per Article 136(2) of the CRR. Further, recital 11 of the Implementing Regulation specifies that both quantitative and qualitative factors should be used to produce a mapping, with the qualitative factors being considered in a second stage, as and when necessary and especially where quantitative factors are not adequate. Following this approach, changes in qualitative factors are assigned lower priority with respect to quantitative factors.

The qualitative factors identified in the Implementing Regulation are:

- the definition of default considered by the ECAI;
- the time horizon of a rating category considered by the ECAI;
- the meaning of a rating category and its relative position within the rating scale;
- the creditworthiness of the items assigned the same rating category;
- the estimate provided by the ECAI of the long run default rate;

<sup>5</sup> <https://cerrep.esma.europa.eu/cerep-web/>.

<sup>6</sup> Article 11(2) of the CRA Regulation.

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- the relationship established by the ECAI ('internal mapping'), where available, between on the one hand, the rating category which is being mapped, and on the other hand, other rating categories produced by the same ECAI, where a mapping for the latter categories has already been set out;
- any other relevant information that can describe the degree of risk expressed by a rating category.

Moreover, as noted in recital 26 of the Implementing Regulation, in March 2016 the Commission notified the JC of the ESAs of its intention to endorse the draft ITS<sup>7</sup> with amendments, which affected the level of conservatism of the mapping. An Opinion was issued by the ESAs rejecting the amendments proposed by the Commission<sup>8</sup>.

However, as indicated in recital 27 of the Implementing Regulation, the Commission proceeded to amend the draft ITS in respect of some provisions that relate to smaller/newer ECAIs that entered the market recently. As a result the Commission did not adopt the more conservative treatment in cases of limited data, after the end of the phase-in period in 2019. Therefore, the approach of an "indefinitely extended" phase-in period is also adopted here.

## Impact

### Costs

The mappings, as well as their review of adequacy, are produced following the methodology adopted by the Commission. The Commission highlights the need to avoid the automatic application of a more conservative mapping to all ECAIs which did not produce sufficient ratings, for the sole reason that they did not produced sufficient ratings, without taking into account the quality of their ratings. Subsequently, qualitative factors were captured via the notifications sent to ESMA by the ECAIs as part of their reporting obligations under the CRA Regulation.

There are potential risks that ECAIs with limited ratings could leverage on the Commission's amendments and produce credit assessments that are less conservative than the mapping would suggest. Subsequent monitoring of mapping reports should allow identifying these situations, which would warrant a mapping review.

### Benefits

<sup>7</sup> <http://www.eba.europa.eu/documents/10180/1269185/Final+Draft+ITS+on+ECAIs%27%20Mapping.pdf/3f4b46bb-825e-4211-b199-519b6b3bf865>

<sup>8</sup> <http://www.eba.europa.eu/documents/10180/1359456/ESAs+2016+41+%28Joint+Opinion+on+EC+amend+ITS+ECAIs+Mapping+CRR%29.pdf>

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Two additional ECAIs will be provided with a correspondence between their credit assessments and the CQS, which allows the use of those credit assessments for determining own fund requirements. This increases competition in the industry, where certain ECAIs exercise a significant market power<sup>9</sup>.

ECAIs having extended their credit assessments to new segments will see the associated new rating scales and/or new credit rating types re-considered. Moreover, ECAIs having amended, added or removed rating scales will have their mapping reflecting these changes.

Overall, these changes will benefit the financial sector by providing it with an accurate and updated picture of the correspondence between their credit assessments and the CQS, which allows the use of those credit assessments for determining own fund requirements.

The analysis performed to arrive at each individual mapping and its regular monitoring over time should contribute to mitigate any mechanistic overreliance of the credit risk rules on external ratings, although due caution should continue to be exercised. This is one of the objectives of Solvency II derived from the G-20 conclusions and the FSB principles for reducing reliance on external credit ratings.

### Question for Consultation:

***Do you agree with the proposed revised draft Implementing Technical Standards?***

<sup>9</sup> The market share is concentrated in three ECAIs that represent over 90% of the market. Market share calculation based on 2019 applicable turnover from credit rating activities and ancillary services in the EU. Please refer to [https://www.esma.europa.eu/sites/default/files/library/esma33-9-340\\_cra\\_market\\_share\\_calculation\\_2019.pdf](https://www.esma.europa.eu/sites/default/files/library/esma33-9-340_cra_market_share_calculation_2019.pdf)