



JOINT COMMITTEE OF THE EUROPEAN
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JC/CP/2018/41

26 October 2018

Consultation Paper

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

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

To submit your comments, click on the 'Send your comments' button on the consultation page on the EIOPA website by 31 December 2018. Please note that comments submitted after this deadline, or submitted via other means may 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

The Commission adopted on 11 October 2016 the Implementing Regulation (EU) 2016/1800 ('the Implementing Regulation')¹ 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)².

The Solvency II Delegated Regulation³ 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 Regulation⁴. According to Article 109a(1) of Solvency II, the Implementing Regulation specifies the allocation of relevant credit assessments of 26 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 ITS submitted by the Joint Committee (JC) of the European Supervisory Authorities (ESAs).

According to Article 136(1) CRR, 'mappings' should be specified for all ECAIs, which are defined in Article 4(98) 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 Regulation (EU) No 575/2013 (the CRR), the same requirements apply within the scope of Directive 2009/138/EC⁵. On 7 December 2017, the JC of the ESAs submitted draft ITS amending the Implementing Regulation to incorporate mappings for the five new ECAIs that had been registered or certified after the ESAs submitted the original draft ITS to the Commission⁶. Both amended Implementing Regulations, Commission Implementing Regulation (EU) 2018/634 and Commission Implementing Regulation (EU) 2018/633, have been published in the Official Journal of the European Union on 25 April 2018⁷.

Pursuant to Article 136(1) second subparagraph of Regulation (EU) No 575/2013, and in line with recital 24 of the Implementing Regulation, the adequacy of the mapping should be reviewed. The

¹ 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

² 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).

³ 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).

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2015.012.01.0001.01.ENG&toc=OJ:L:2015:012:TOC

⁴ Regulation (EC) No 1060/2009 (OJ L 302, 17.11.2009, p. 1-33).

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02009R1060-20150621>

⁵ Henceforth, the disclosed relevance of the respective CRR provisions for the scope of ECAI ratings within Solvency II is taken for granted.

⁶ The amended draft ITS also removes the reference to the one ECAI for which ESMA withdrew the CRA Registration in March 2017.

https://www.esma.europa.eu/sites/default/files/library/esma71-99-376_feri_eurorating_services_credit_rating_agency_registration_withdrawn.pdf

⁷ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2018:105:TOC>



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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. The current mapping review exercise only considered those credit assessments officially published up to 1 December 2017. 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. Individual amended mapping reports are also published on the EIOPA website.

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3. Background and rationale

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)⁸, Article 15 of Regulation (EU) No 1094/2010 (EIOPA Regulation)⁹ and Article 15 of Regulation (EU) No 1095/2010 (ESMA Regulation)¹⁰.

Background to these revised draft ITS

Use of external credit assessments in the CRR/CRD IV

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.

⁸ 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).

⁹ 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).

¹⁰ 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.

Pursuant to Article 136(1) CRR, second subparagraph of Regulation (EU) No 575/2013, the adequacy of the mapping should be reviewed. 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, as well as the discontinuation of portfolio credit assessments. Individual amended mapping reports are also published on the EIOPA website for the following ECAIs:

- Amendments due to re-allocation of credit quality steps: Creditreform Ratings AG and European Rating Agency, a.s.;
- Amendments due to changes in credit rating scales/types: AM Best Europe-Rating Services Ltd., BCRA-Credit Rating Agency AD, Capital Intelligence Ratings Ltd, Creditreform Rating AG, CRIF Ratings S.r.l., DBRS Ratings Limited, Fitch Ratings Limited, Moody's Investors Service Ltd, Spread Research, S&P Global Ratings.

The revised draft ITS therefore contain draft mappings for the ECAI population featured in the Annex to the draft amended ITS published by the JC of the ESAs on 7 December 2017, namely amended mappings for the 11 ECAIs mentioned above and unchanged mappings for the other 19 ECAIs.

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) CRR, which states that revised draft implementing technical standards shall be submitted where necessary. The requirement of Article 111(1)(n) of the Solvency II Directive¹¹ 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.

Together with the revised draft ITS, individual amended mapping reports are also published on the EIOPA website.

¹¹ 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).



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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

In between the text of the draft ITS that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.



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

of **XXX**

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)¹², and in particular Article 109a(1) thereof,

Whereas:

- (1) Commission Implementing Regulation (EU) 2016/1800¹³ specifies, among others, in its Annex, the correspondence of the relevant credit assessments issued by an ECAI to the credit quality steps set out in Section 2 of Chapter I of Title I of Commission Delegated Regulation (EU) No 2015/35 ('External credit assessments').
- (2) By way of Article 111(1)(n) of Directive 2009/138/EC ('Solvency II Directive'), the second subparagraph of Article 136(1) of Regulation (EU) No 575/2013 requires the updating of the mappings for all ECAIs registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council¹⁴. In analogy, recital 24 of Regulation (EU) 2016/1799, which contains such mappings, provides for the monitoring of the performance of the mappings contained therein on a continuous basis and implies the revision of the Regulation, as appropriate, where that monitoring identifies changes in the quantitative and qualitative factors underpinning such credit ratings and, by extension, their mappings. As a result, given that, on the one hand, changes have been effected on the quantitative and qualitative factors of the credit assessments of some of the credit ratings agencies for which mappings were provided by Regulation (EU) 2016/1800, and, on the other hand, other credit rating agencies among those have extended their credit assessments to new market segments, resulting in new rating scales and new credit rating types, that Regulation should be amended to provide updated mappings for all registered or certified ECAIs.

¹²Directive 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).

¹³ Commission Implementing Regulation (EU) 2016/1800 of 11 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).

¹⁴ 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).



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- (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.
- (4) EBA, ESMA and EIOPA 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 Council¹⁵; 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 Council¹⁶; 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 Council¹⁷.
- (5) Implementing Regulation (EU) 2016/1800 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1
Amendments to Regulation (EU) 2016/1800

Implementing Regulation (EU) No 2016/1800 is amended as follows:

The Annex is replaced by 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,

¹⁵ 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).

¹⁶ 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).

¹⁷ 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).



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*For the Commission
The President*

Jean-Claude Juncker



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>AM Best Europe-Rating Services Ltd</i>							
Long-term issuer credit ratings scale	aaa	aa+, 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, 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
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>Axesor S.A.</i>							
Global rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D, E
<i>Banque de France</i>							
Global long-term issuer credit ratings scale		3++	3+, 3	4+	4, 5+	5, 6	7, 8, 9, P
<i>BCRA – Credit Rating Agency AD</i>							
Global long-term ratings scale	AAA	AA	A	BBB	BB	B	CC, 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
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



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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
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		

Dagong Europe Credit Rating

Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale		A-1		A-2, A-3	B, C, D		

DBRS Ratings Limited

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

Egan-Jones Ratings Co.



Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale		A-1+	A-1	A-2	A-3, B, C, D		
<i>Euler Hermes Rating GmbH</i>							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, SD, D
<i>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>EuroRating Sp. z o.o.</i>							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
<i>Fitch France S.A.S. , Fitch Deutschland GmbH , Fitch Italia S.p.A. , Fitch Polska S.A. , Fitch Ratings España S.A.U. , Fitch Ratings Limited, Fitch Ratings CIS Limited</i>							
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		
<i>GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH</i>							
Global long-term rating scale	AAA	AA		A, BBB	BB	B	CCC, CC, C, D
<i>HR Ratings de México, S.A. de C.V.</i>							
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)		
<i>ICAP Group S.A.</i>							
Global long-term rating scale			AA, A	BB, B	C, D	E, F	G, H
<i>INC Rating Sp. z o.o.</i>							
Long-term issuer credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
<i>Japan Credit Rating Agency Ltd</i>							



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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		
<i>Kroll Bond Rating Agency</i>							
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		
<i>modeFinance S.r.l.</i>							
Global long-term rating scale	A1	A2	A3	B1	B2	B3	C1, C2, C3, D
<i>Moody's Investors Service Cyprus Ltd, Moody's France S.A.S. , Moody's Deutschland GmbH, Moody's Italia S.r.l., Moody's Investors Service España S.A., Moody's Investors Service Ltd</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>Rating-Agentur Expert RA GmbH</i>							
International 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
<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		
<i>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, SR6		
<i>S&P Global Ratings France SAS, S&P Global Ratings Europe Limited, Standard & Poor's Credit Market Services Europe Limited</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
Fund credit quality ratings scale	AAAf	AAf	Af	BBBf	BBf	Bf	CCCf
Mid market evaluation ratings scale			MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD



5. Accompanying documents

5.1 Draft 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

The CRR permits the use of external credit ratings for determining own fund requirements. Recital 41 of the CRR indicates that external credit ratings could be used only in the Standardised Approach where credit risk is less material, such as the case of less sophisticated institutions, insignificant exposure classes or when the implementation of internal approaches would be unduly burdensome.

According to Article 135(1) of the CRR, an external credit assessment may be used to determine the risk weight of an exposure under the Standardised Approach only if it has been issued by an ECAI or has been endorsed by an ECAI in accordance with the CRA Regulation.

Recital 98 of the CRR advises that the ECAI market should be open to more credit rating agencies given the dominance of three undertakings. Accordingly, Article 4(98) of the CRR automatically recognises credit rating agencies registered or certified in accordance with the CRA Regulation as ECAIs. Central banks issuing credit ratings which are exempt from the application of the CRA Regulation are also recognised as ECAIs.

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 Standardised Approach set out in Section 2 of Chapter 2 of Title II of Part Three of the CRR.

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 Regulation (EU) 2016/1799 points out that, given the fact that compliance with Regulation (EU) No 575/2013 is required at all times, it is necessary to monitor the performance of the mapping on a continuous basis.



Objectives

The Commission adopted on 7 October 2016 the Implementing Regulation laying down ITS with regard to the mapping of credit assessments of ECAIs for credit risk in accordance with Articles 136(1) and 136(3) of the CRR.

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 submitted to the Commission on 7 December 2017¹.

The objective of the present revised draft ITS is to amend the Implementing Regulation to include for established ECAIs changes in the mappings that have occurred since the ITS has been adopted on 7 October 2016. The revised draft ITS will therefore register mappings for the current ECAI population (including for the 5 newly established ECAIs), with unchanged mappings for all but the 11 ECAIs that saw their mappings reviewed as part of the mapping adequacy exercise.

Figure 1: ECAIs subject to mapping amendments

ECAI	Amendments to:	
	Credit rating scales/types	Credit Quality Steps Allocation
AM Best Europe-Rating Services Ltd. (AMBERS)	Yes	No
BCRA-Credit Rating Agency AD	Yes	No
Capital Intelligence Ratings Ltd	Yes	No
Creditreform Rating AG	Yes	Downgrade
CRIF Ratings S.r.l.	Yes	No
DBRS Ratings Limited	Yes	No
European Rating Agency, a.s.	No	Upgrade
Fitch Ratings Limited	Yes	No
Moody's Investors Service Ltd	Yes	No
Spread Research	Yes	No
S&P Global Ratings	Yes	No

¹ The amended draft ITS also removes the reference to the one ECAI for which ESMA withdrew the CRA Registration in March 2017. https://www.esma.europa.eu/sites/default/files/library/esma71-99-376_feri_eurorating_services_credit_rating_agency_registration_withdrawn.pdf

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These draft ITS should be particularly applicable by institutions where credit risk is less material, which is typically the case for less sophisticated institutions, for insignificant exposure classes or in situations where using internal approaches would be overly burdensome.

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, 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 adopted by the Commission in October 2016.

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 (CEREP²), based on the information provided by the ECAIs as part of their reporting obligations³. Currently, the latest CEREP data available cover up to reference date December 2015⁴, therefore effectively setting the cut-off date for the current mapping adequacy exercise.

² <https://cerrep.esma.europa.eu/cerrep-web/>

³ Article 11(2) of the CRA Regulation.

⁴ ESMA is in the process of implementing a new data reporting framework (European Rating Platform), whereby more up-to-date and extensive information is collected from CRAs. This has caused delays with respect to the typical CEREP release schedule. CEREP migration is currently expected to be finalised by the end of 2018.



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Qualitative factors are taken into account to produce the mapping of credit assessments, as per Article 136(2) 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;
- 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 adopted Implementing Regulation, in March 2016 the Commission notified the JC of the ESAs of its intention to endorse the draft ITS⁵ with amendments, which affected the level of conservatism of the mapping. An Opinion was issued by the ESAs rejecting the amendments proposed by the Commission⁶.

However, as indicated in recital 27 of the ITS, 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 has also been adopted here.

⁵ <http://www.eba.europa.eu/documents/10180/1269185/Final+Draft+ITS+on+ECAIs%27%20Mapping.pdf/3f4b46bb-825e-4211-b199-519b6b3bf865>

⁶ <http://www.eba.europa.eu/documents/10180/1359456/ESAs+2016+41+%28Joint+Opinion+on+EC+amend+ITS+ECAIs+Mapping+CRR%29.pdf>



Impact of the review of mapping adequacy for the 11 ECAIs

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 produce 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. Less conservative credit assessments would be associated with lower risk weights under the Standardised Approach, which would result in an underestimation of capital requirements. Subsequent monitoring of mapping reports should allow identifying these situations, which would warrant a mapping review.

Benefits

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. Finally, ECAIs having issued new credit rating types will have those included in the mapping report.

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 of the Standardised Approach, 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 power⁷.

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 the CRR 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?

⁷ The market share is concentrated in three ECAIs that represent around 90% of the market. Market share calculation based on 2015 applicable turnover from credit rating activities and ancillary services in the EU. Please refer to https://www.esma.europa.eu/sites/default/files/library/2016-1662_cra_market_share_calculation.pdf