JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

<table>
<tr><td colspan="2">Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001
Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps</td><td>Deadline
10.Apr.2015
23:59 CET</td></tr>
<tr><td>Company name:</td><td colspan="2">Allianz Group</td></tr>
<tr><td>Disclosure of comments:</td><td>EBA, ESMA and EIOPA will make all comments available on their website, except where respondents specifically request that their comments remain confidential.
Please indicate if your comments on this CP should be treated as confidential, by deleting the word Public in the column to the left and by inserting the word Confidential.</td><td>Public</td></tr>
<tr><td></td><td colspan="2">The question numbers below correspond to Joint Consultation Paper on Mechanistic references to credit ratings in the ESAs´guidelines and recommendations (JC-CP- 2015-001).

Please follow the instructions for filling in the template:
⇨ <u>Do not change the numbering</u> in column “Reference”.
⇨ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>.
⇨ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below.
○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies.
○ If your comment refers to sub-bullets/sub-paragraphs, please indicate this in the comment itself.
Please send the completed template to JointCommitteeConsultation@eiopa.europa.eu <u>in MS Word Format</u>, (our IT tool does not allow processing of any other formats).</td></tr>
<tr><td>Reference</td><td colspan="2">Comment</td></tr>
<tr><td>General Comment:</td><td>In the opinion of Allianz, the mapping approach should be made very transparent and an identical mapping process should be applied consistently across all ECAIs. This is crucial as insurance and reinsurance undertakings, investors, banks and other third parties should be</td><td></td></tr>
</table>

Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps		Deadline 10.Apr.2015 23:59 CET
	able to have a deep insight into possible differences between ECAIs and a full understanding of the methodology applied to the mapping process. In our feedback, we assume that the mapping in the insurance framework follows closely the process as set out in the Articles of the Consultation Paper and Addendum on the Draft ITS on the Mapping of ECAIs' Credit Assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013 (Capital Requirements Regualtion-CRR) (hereafter: EBA Draft ITS) for each ECAI. We recognised in the mapping reports provided by EBA that some statistics have been calculated based on a wide variety of different data and the validity of these statistics has been cross-checked based on a heterogeneous set of information, which are not fully comparable across different ECAIs or consistent with ECAIs' different rating methodologies. We suggest that the mapping should take into account this heterogeneity. We would highly recommend to take into account the amendments proposed by Euler Hermes Rating and the European Association of Credit Rating Agencies as presented in their comments on the EBA Draft ITS.	
Question: In respect of smaller ECAIs further investigation of the mappings could be undertaken. Please submit your views.	Allianz is concerned that some issues related to the mapping approach might not fully reflect the risk associated with specific rating categories, particularly with respect to smaller ECAIs. We suggest applying a more judgement-based mapping approach, which is able to incorporate additional qualitative information. This requires a deep insight into the nature of different rating businesses and rating processes across all ECAIs. The chosen time period of the data sample, ending in 2010, does not fully reflect the quality of ECAIs' rating performance. Specifically, the number of ratings, which have been issued by smaller ECAIs has substantially increased since 2010 due to the CRA regulation. In the past three years, the capital markets have observed an increasing number of defaults, especially in the European SME bond market, which are not reflected in the CQS mappings. We suggest that a more recent rating history should be applied for mapping purposes. The definition of a "sufficient number of credit ratings" as set out in Article 3 of the EBA Draft ITS should also be adapted to the number of rated items provided by smaller ECAIs. The European Union wants to increase competition and therefore promotes the use of smaller	

ECAIs/CRAs, as set out (for example) in Article 8c(1) of the CRA Regulation (EU) No 462/2013.

With respect to ECAIs providing ratings for companies, that do not rely on market financing, as set out in Article 9 of EBA Draft ITS, we assume that an uplift by up to 100% of the initial default rates is substantially too high, particularly in cases where only bankruptcy-related events are considered in the definition of default. In general, for most corporates, particularly SMEs, any missed or delayed (re-)payment is closely followed by bankruptcy. In addition, it is questionable whether a default with respect to missed or delayed payments or distressed exchanges on bank loans for which public information is not available may be consistently observable for publicly-listed companies. Large corporates may indeed try to make an agreement on bank loans as a first step avoiding any non-payment to bondholders. Therefore, we expect that on average, the same market mechanisms in terms of publicly available information on non-payments and distressed exchanges could be observed for both, SMEs and large corporates. Thus, any uplift should be avoided or made to a very low and judgment-based extent.

In addition, considering the use of the risk profile of a credit assessment as set out in Article 12 of EBA Draft ITS, the mapping approach is designed to enable an unbiased and consistent mapping of the rating categories of different ECAIs. Therefore, in our opinion, the risk associated with a rating category should not depend on the risk profile of the rated entities when no default data is available. ECAIs, which predominantly provide ratings in mid-cap markets are expected not to assign the highest rating categories to SMEs but are still able to assign these highest rating categories to (for example) very large and highly diversified corporates or covered bonds.

Lastly, as set out in Article 4 of EBA Draft ITS, the long-run and short-run default rate benchmarks applied in the mapping process correspond to those provided by S&P's and Moody's, as defined in Annex 2 (Standardised Approach - Implementing the Mapping Process) of Basel II (International Convergence of Capital Measurement and Capital Standards; Basel Committee on Banking Supervision, June 2006). It is questionable whether these benchmarks are still valid (for example) due to changes during and after the global financial crisis, and whether benchmarks based on default rates of multinational companies fully reflect the risk

Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps		Deadline 10.Apr.2015 23:59 CET
	associated with (for example) Western European corporates or mid-cap markets. We, hence, suggest applying a more sophisticated benchmark taking into account an ECAI's rating universe, incorporating any additional information on defaulted entities available to an ECAI and/or applying an uplift to an extent, which is based on observed market data and standards provided by industry experts.	
Article 1. ECAI Nr. 1		
Article 1. ECAI Nr. 2		
Article 1. ECAI Nr. 3		
Article 1. ECAI Nr. 4		
Article 1. ECAI Nr. 5		
Article 1. ECAI Nr. 6		
Article 1. ECAI Nr. 7		
Article 1. ECAI Nr. 8		
Article 1. ECAI Nr. 9		
Article 1. ECAI Nr. 10		
Article 1. ECAI Nr. 11		
Article 1. ECAI Nr. 12		
Article 1. ECAI Nr. 13		
Article 1. ECAI Nr. 14		
Article 1. ECAI Nr. 15	Allianz noticed that the statistics presented in Euler Hermes Rating's mapping report for the number of rated items and defaulted rated items as well as the long-run default rates are based on assumptions and methodological approaches, which do not reflect the data provided by Euler Hermes Rating. Moreover, we recognised that significant qualitative adjustments to the Credit Quality Steps, as outlined in the EBA Draft ITS, have not been incorporated into the mapping process in those	

	Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps	**Deadline 10.Apr.2015 23:59 CET**
	cases where the mapping is not consistent to expectations. The CQS mapping, thus, does not fully reflect the risk associated with the rating categories of Euler Hermes Rating. Public and private ratings were used for mapping purposes. However, the EBA Draft ITS and the corresponding CRA regulation only allows the usage of public ratings in the mapping process. The remaining private ratings in the rating history are not compliant with regulation/ITS and should therefore not be incorporated in the quantitative analysis. Therefore, the long-run default rates should be re-estimated by the Joint Committee and a modified CQS3 should be assigned to the Euler Hermes BBB rating categories. Lastly, the risk associated with Euler Hermes Rating's rating categories AAA and AA should be comparable to that of, e.g., S&P's AAA and AA rating categories because of their rating methodologies applied. Euler Hermes Rating performed a backtesting providing sufficient evidence for a high correlation between Euler Hermes Rating's and, e.g., S&P's ratings at all rating levels.	
Article 1. ECAI Nr. 16		
Article 1. ECAI Nr. 17		
Article 1. ECAI Nr. 18		
Article 1. ECAI Nr. 19		
Article 1. ECAI Nr. 20		
Article 1. ECAI Nr. 21		
Article 1. ECAI Nr. 22		
Article 1. ECAI Nr. 23		
Article 1. ECAI Nr. 24		
Article 1. ECAI Nr. 25		
Article 1. ECAI Nr. 26		
Article 2.1		

Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps		Deadline 10.Apr.2015 23:59 CET
Article 2.2		
Impact Assessment 1		
Impact Assessment 2		
Impact Assessment 3		
Impact Assessment 4.1	Basically, Allianz agrees with Policy Option 1.1.	
Impact Assessment 4.2	Basically, Allianz agrees with Policy Option 2.1. As this measure is common for the evaluation of different levels of risk, we agree with the proposed use of a long-run time horizon. Nevertheless, short-run default rates should be included as a mechanism to identify a weaking of assessment standard, as set out in Article 15 of the EBA Draft ITS. However, the long-run and short-run default rate benchmarks applied in the mapping process of the EBA Draft ITS correspond to those provided by S&P's and Moody's, as defined in Annex 2 (Standardised Approach - Implementing the Mapping Process) of Basel II (International Convergence of Capital Measurement and Capital Standards; Basel Committee on Banking Supervision, June 2006). It is questionable whether these benchmarks are still valid (for example) due to changes during and after the global financial crisis, and whether benchmarks based on default rates of multinational companies fully reflect the risk associated with (for example) Western European corporates or mid-cap markets. Also, it should be made more transparent what could be considered as "materially higher than the benchmark" and in which cases a reassessment of an ECAI's mapping will be proposed. In addition, a reassessment should not only be proposed based on quantitative information, especially when changes in the market environment, exogenous shocks or similar developments might affect default rates. This requires a more sophisticated judgement-based evaluation.	
Impact Assessment 4.3	Basically, Allianz agrees with Policy Option 3.2. The definition of "sufficient" with respect to the number of ratings, as set out in Article 3 of the EBA Draft ITS, should be made more transparent. In addition, the mapping process should	

Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps		Deadline 10.Apr.2015 23:59 CET
	always include "necessary expert judgement". However, there should be a more transparent description in the mapping reports for the ECAIs published by EBA to what extent this expert judgement is applied to the definition of "sufficient" and to what extent the decision whether the number of ratings is considered sufficient or not is based on quantitative or judgement-driven decisions. The definition of "sufficient" should also be adapted to the number of rated items provided by smaller ECAIs. The European Union wants to increase competition and therefore promotes the use of smaller ECAIs/CRAs, as set out (for example) in Article 8c(1) of the CRA Regulation (EU) No 462/2013. Basically, we agree with the "minimum required number of rated items", as set out in Table 1 in the Addendum to Section 4 of JC/CP/2014/01 entitled 'Draft Implementing TS on the mapping of ECAIs' credit assessments under Articles 136(1) and 136(3) of Regulation (EU) No 575/201"3 (Capital Requirements Regulation-CRR)' in cases where neither a "sufficient number of credit ratings" nor a sufficient number of items assigned a different measure of creditworthiness" is available. We would welcome a more transparent description of the derivation of the required numbers of rated items for each rating category. However, the application of a "different measure of creditworthiness" may be less reliable. First, we partially agree with the application of scoring models to the mapping process. We would like to point out, though, that scoring models should be directly comparable to the genuine credit rating assigned by an ECAI in order to fully reflect the risk relationship between genuine ratings and scoring models. We do not agree that the mapping of benchmark ECAIs is used for the mapping of specific ECAIs (which are different from the benchmark ECAIs). This approach presumably implies that rating methodologies, rating analysts and the rating universe of both, already rated	

	items/asset classes and future rated items/asset classes are fully comparable and almost identical. We assume that this will not be the case. Any ECAI can purchase data on corporates and default information from data providers and is therefore able to develop a scoring approach adjusted with qualitative market data as an initial measure of credit risk. Applying such scoring models adjusted by qualitative information on industry trends would therefore better reflect the ECAI's own rating performance.	
Impact Assessment 4.4	Basically, Allianz agrees with Policy Option 4.1. We basically agree that the definition of default used by ECAIs has a significant impact on the outcome of the analysis. Nevertheless, we assume that an uplift by up to 100% of the initial default rates is substantially too high, particularly in cases where only bankruptcy-related events are considered in the definition of default. In general, for most corporates, particularly SMEs, any missed or delayed (re-)payment is closely followed by bankruptcy. In addition, it is questionable whether a default with respect to missed or delayed payments or distressed exchanges on bank loans for which public information is not available may be consistently observable for publicly-listed companies. Large corporates may indeed try to make an agreement on bank loans as a first step avoiding any non-payment to bondholders. Therefore, we expect that on average, the same market mechanisms in terms of publicly available information on non-payments and distressed exchanges could be observed for both, SMEs and large corporates. Thus, any uplift should be avoided or made to a very low and judgment-based extent. Also, an uplift by 100% applied to a default rate of (for example) 1.5% in ECAI's rating category BBB (equalling CQS 3 with an average default rate of 1.0%) would result in an adjusted default rate of 3%, which equals CQS 4 with an average default rate of 7.5%. Thus, the risk associated with the ECAI's BBB rating category would be 400% more (5 times higher) than initially calculated instead of only 100% more (2 times higher). This could be mitigated if a more refined CQS scale is applied taking into account all rating and notch categories generally used by ECAIs. In addition, it is crucial to consider "any other relevant information that can describe the degree of risk expressed by a rating category", as set out in Article 8(g) of the EBA Draft ITS	

	Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps	**Deadline 10.Apr.2015 23:59 CET**
	when assigning an uplift to the initial default rate; for example: ECAIs with broad information available are able to monitor any default events related to the rated entities, even if a rating is withdrawn or not monitored through information provided by the rated entity. It is also necessary to apply a judgement-driven approach to the assessment of the definition of default and the observed defaults, meaning that all qualitative information relevant to assess the risk associated with a specific rating category should be incorporated. We, hence, suggest applying a more sophisticated benchmark taking into account an ECAI's rating universe, incorporating any additional information on defaulted entities available to an ECAI and/or applying an uplift to an extent, which is based on observed market data and standards provided by industry experts.	
Impact Assessment 4.5	Basically, Allianz agrees with Policy Option 5.2. We agree with the application of 3-year default rates and the calculation of the long-run default rates. However, in our opinion, the Credit Quality Steps used in the mapping process are too broad taking into account that most Credit Rating Agencies apply a more sophisticated rating scale with a larger number of rating categories including several notch categories. Therefore, the level of risk associated with the CQS might not fully reflect the risk associated with ECAIs' genuine rating scales. This implies that the mapping process should include some information associated with specific rating (notch) categories. This is evidenced by typically disproportionately increasing empirical default rates across (for example) BBB+, BBB and BBB- notch categories. The mapping of rating categories to CQS should also reflect a decreasing level of risk over time associated with a rating category instead of solely incorporating an increasing level of risk (see recital (12) of the EBA Draft ITS). In our view, treating withdrawn items prior to the end of the time horizon by 50%, as set out in Article 1 of the EBA Draft ITS, may be substantially too high, especially in cases where ECAIs have specific information available, which allows them to monitor any default events related to the rated entities after withdrawal.	

	Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps	Deadline 10.Apr.2015 23:59 CET
	In general, ECAIs apply a through-the-cycle rating approach. We believe that incorporating default rates as set out in Article 4 of the EBA Draft ITS, which only refer to a recessionary period might be too conservative. The long-run and short-run default rate benchmarks applied in the mapping process of the EBA Draft ITS correspond to those provided by S&P's and Moody's, as defined in Annex 2 (Standardised Approach - Implementing the Mapping Process) of Basel II (International Convergence of Capital Measurement and Capital Standards; Basel Committee on Banking Supervision, June 2006). It is questionable whether these benchmarks are still valid (for example) due to changes during and after the global financial crisis, and whether benchmarks based on default rates of multinational companies fully reflect the risk associated with (for example) Western European corporates or mid-cap markets. The definition of "sufficient" with respect to the number of ratings, as set out in Article 3 of the EBA Draft ITS, should be made more transparent. In addition, the mapping process should always include "necessary expert judgement". However, there should be a more transparent description to what extent this expert judgement is applied to the definition of "sufficient" and to what extent the decision whether the number of ratings is considered sufficient or not is based on quantitative or judgement-driven decisions. The definition of "sufficient" should also be adapted to the number of rated items provided by smaller ECAIs. The European Union wants to increase competition and therefore promotes the use of smaller ECAIs/CRAs, as set out (for example) in Article 8c(1) of the CRA Regulation (EU) No 462/2013. Basically, we agree with the "minimum required number of rated items", as set out in Table 1 in the Addendum to Section 4 of JC/CP/2014/01 entitled 'Draft Implementing TS on the mapping of ECAIs' credit assessments under Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 (Capital Requirements Regulation-CRR)' in cases	

Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps		Deadline 10.Apr.2015 23:59 CET
	where neither a sufficient number of credit ratings nor a sufficient number of items assigned a different measure of creditworthiness is available. We would welcome a more transparent description of the derivation of the required numbers of rated items for each rating category.	
Impact Assessment 5		