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18/07/2017

Consultation Paper

Draft implementing technical standards amending Implementing Regulation (EU) 2016/1799 on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013



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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 EBA’s website by 18/09/2017. 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 7 October 2016 Implementing Regulation (EU) 2016/1799 ('the Implementing Regulation')¹ laying down Implementing Technical Standards with regard to the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for credit risk in accordance with Articles 136(1) and 136(3) of Regulation 575/2013 (Capital Requirements Regulation—CRR).. Credit risk assessments assigned to securitisation positions are out of scope as the mandate is under Article 270 CRR, which has been addressed in Commission Implementing Regulation (EU) 2016/1801².

The CRR establishes that risk weights under the Standardised Approach should be based on the exposure class to which the exposure is assigned and, if applicable, its credit quality determined by reference to the credit assessments of ECAIs. As per Article 136(1) CRR, the Implementing Regulation specifies the correspondence ('mapping') between relevant credit assessments of 26 ECAIs and credit quality steps set out in Section 2 of Chapter 2 of Title II of Part Three of the CRR, which refers to the risk weights for the calculation of credit risk capital requirements under the Standardised Approach. Following the mandate of Article 136(3) CRR the Implementing Regulation specifies as well the quantitative and qualitative factors and benchmarks that should be taken into consideration to determine such correspondence. The Implementing Regulation is based on the draft Implementing Technical Standards (ITS) submitted by the Joint Committee of the European Supervisory Agencies (ESAs).

According to Article 136(1) CRR, 'mappings' should be specified for all ECAIs, which are defined according to Article 4(98) CRR as Credit Rating Agencies (CRAs) registered or certified in accordance with the CRA Regulation³ or a central bank issuing credit ratings that are exempt from the application of CRA Regulation. This 'automatic' recognition process represents a substantial modification of the process applicable under the Directives 2006/48/EC and 2006/49/EC. This increases competition in the industry, where certain ECAIs exercise a significant market power⁴.

Annex III 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. Since then, ESMA has withdrawn the registration of

¹ Regulation (EU) 2016/1799 of 7 October 2016 (OJ L 275, 12.10.2016, p.3-18)

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.275.01.0003.01.ENG&toc=OJ:L:2016:275:TOC

² Regulation (EU) 2016/1801 of 11 October 2016 (OJ L 275, 12.10.2016, p. 27–33)

http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.275.01.0027.01.ENG&toc=OJ:L:2016:275:TOC

³ Regulation (EC) No 1060/2009 of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1-33).

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

⁴ 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



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one CRA⁵ and five additional CRAs have been recognised⁶. The Implementing Regulation will therefore need to be amended to reflect mappings for the newly established ECAIs and to remove the reference to the de-registered ECAI. This is in line with the second subparagraph of Article 136(1), which states that revised draft implementing technical standards shall be submitted by the ESAs where necessary. The revised draft ITS will therefore register mappings for the current ECAI population, namely mappings for the 5 newly established ECAIS together with unchanged mappings for the 25 ECAIs⁷ covered in the Implementing Regulation.

⁵ https://www.esma.europa.eu/sites/default/files/library/esma71-99-376_feri_eurorating_services_credit_rating_agency_registration_withdrawn.pdf

⁶ Please refer to the ESMA website for a list of CRAs registered or certified in accordance with the CRA Regulation.
<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>

⁷ The Implementing Regulation provided mappings for 26 ECAIs, including Feri EuroRating Services AG (Feri). Feri no longer meets the ECAI definition in article 4(98) CRR, given the withdrawal of its CRA registration by ESMA.

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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

Regulation (EU) No 575/2013 (Capital Requirements Regulation—CRR) allows the use of external credit assessments of ECAIs to determine the credit quality that will be used to set the corresponding risk weight under the Standardised Approach, see Article 113(1). This provision is equivalent to the provisions of the Basel II framework and represents a significant enhancement in the risk-sensitivity and prudential soundness of the credit risk rules.

These draft ITS should be specially 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. Where credit risk is material, institutions should therefore generally seek to implement internal ratings-based approaches or internal models.

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).

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 and relevant external credit assessments

As stated in Article 135(1) CRR, external credit assessments can only be used if they have been provided by an ECAI. These draft ITS specify the mappings that should be used for determining the own fund requirements under the Standardised Approach.

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.

Annex III of the Implementing Regulation provided mapping tables for 26 ECAIs, which covered one central bank and the all the CRAs registered or certified in accordance with the CRA Regulation at the time the ESAs started preparing the draft ITS. Since then:

- Five additional ECAIs have been recognised: Egan-Jones Ratings Co., HR Ratings de México, S.A. de C.V., INC Rating Sp. z o.o., modeFinance S.r.l. and Rating-Agentur Expert RA GmbH.
- The CRA registration of Feri EuroRating Services AG (Feri) has been withdrawn by ESMA. Feri renounced to its registration under the conditions set out in Article 20(1)(a) of the CRA Regulation, as it no longer performed credit rating activities and no longer existed as a separate legal person following acquisition by Scope KGaA.

The revised draft ITS will therefore register mappings for the current ECAI population, namely mappings for the 5 newly established ECAIS together with unchanged mappings for the 25 ECAIs¹¹ covered in the Implementing Regulation.

Structure of the ITS

These revised draft ITS amend Annex III of the Implementing Regulation to take into account changes in the ECAI population. This is in line with the second subparagraph of Article 136(1), which states that revised draft implementing technical standards shall be submitted where necessary.

Together with the revised draft ITS, individual mapping reports are also published on the EBA website to illustrate how the methodology is applied to derive the mappings for each of the newly established ECAIs.

¹¹ The Implementing Regulation provided mappings for 26 ECAIs, including Feri. Feri no longer meets the ECAI definition in article 4(98) CRR, given the withdrawal of its CRA registration by ESMA. Mappings for those 25 ECAIs remain unchanged.



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4. Draft implementing technical standards amending the Implementing Regulation (EU) 2016/1799 on the mapping of ECAIs' credit assessment under Article 136(1) and (3) of Regulation (EU) No 575/2013

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.



**COMMISSION IMPLEMENTING REGULATION (EU) No .../... amending
Implementing Regulation (EU) 2016/1799 laying down implementing technical
standards with regard to the mapping of credit risk assessments of external credit rating
institutions for credit risk according to Articles 136(1) and 136(3) of Regulation (EU) No
575/2013 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 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 firms¹², and in particular the first subparagraph of Article 136(1) and the third subparagraph of Article 136(3) thereof,

Whereas:

- (1) Commission Implementing Regulation (EU) 2016/1799¹³ specifies, among others, in its Annex III, the correspondence of the relevant credit assessments issued by an ECAI to the credit quality steps set out in Section 2 of Chapter 2 of Title II of Part Three of Regulation (EU) No 575/2013 ('mapping').
- (2) Given that Article 136(1) of Regulation (EU) No 575/2013 requires the specification of mappings for all ECAIs registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council¹⁴, and that, on the one hand, since the adoption of Regulation (EU) 2016/1799 additional CRAs have been registered or certified in accordance with Regulation (EC) No 1060/2009, while, on the other hand one of the ECAIs for which Regulation (EU) 2016/1799 provided a mapping has been deregistered, that Regulation should be amended to provide mappings for the newly registered or certified ECAIs, and to remove the mapping for the deregistered ECAI.
- (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,

¹² OJ L 176, 27.6.2013, p. 1.

¹³ 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).

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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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.

Implementing Regulation (EU) 2016/1799 should be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1
Amendments to Regulation (EU) 2016/1799

Implementing Regulation (EU) No 2016/1799 is amended as follows:

Annex III is replaced by the text set out 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

Jean-Claude Juncker

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).



ANNEX

ANNEX III

Mapping tables for the purposes of Article 16

Credit quality step	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, rs
Long-term debt ratings scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d
Financial strength ratings scale	A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term ratings scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4		
<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 SA</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>						
Bank long-term ratings scale	AAA, AA	A	BBB	BB	B	C, D
Insurance long-term ratings scale	iAAA, iAA	iA	iBBB	iBB	iB	iC, iD
Corporate long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Municipality long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Issue long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Bank short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Corporate short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Municipality short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		



Issue short-term rating scale	A-1+	A-1	A-2, A-3	B, C, D		
<i>Capital Intelligence 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 short-term issuer rating scale	A-1+	A-1	A-2, A-3	B, C, D		
International short-term issue rating scale	A-1+	A-1	A-2, A-3	B, C, 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
<i>Creditreform Ratings AG</i>						
Long-term rating scale	AAA, AA	A	BBB	BB	B	C, D
<i>CRIF S.p.A.</i>						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, D1, D2
<i>Dagong Europe Credit Rating</i>						
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		
<i>DBRS Ratings Limited</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		
Claims paying ability rating scale	IC-1	IC-2	IC-3	IC-4	IC-5	D
<i>Egan-Jones Ratings Co.</i>						
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>						
Long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D
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 Ratings</i>						
Long-term issuer credit 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
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 Bonitäts-beurteilung 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>						



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</i>						
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Bond fund rating scale	Aaa-bf, Aa-bf	A-bf	Baa-bf	Ba-bf	B-bf	Caa-bf, Ca-bf, C-bf
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>						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term rating scale	S-1+	S-1	S-2	S-3, S-4		
<i>Spread Research</i>						
International long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
<i>Standard & Poor's Ratings Services</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
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		



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The Economist Intelligence Unit Ltd

Sovereign rating band scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
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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 are 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 standardised approaches where credit risk is less material, such as the case of less sophisticated institutions, insignificant exposure classes or when the implementation of internal approached 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 bank 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.

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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.

The objective of this revised draft ITS is to amend the Implementing Regulation to include mappings for the newly established ECAIs and to remove the reference to the de-registered ECAI. The revised draft ITS will therefore register mappings for the current ECAI population, namely mappings for the 5 newly established ECAIS together with unchanged mappings for the 25 ECAIs covered in the Implementing Regulation¹.

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.

Figure 1: Newly registered or certified ECAIs

ECAI	Country of residence	Status
Egan-Jones Ratings Co.	USA	Certified
HR Ratings de México, S.A. de C.V.	Mexico	Certified
INC Rating Sp. z o.o.	Poland	Registered
modeFinance S.r.l.	Italy	Registered
Rating-Agentur Expert RA GmbH	Germany	Registered

¹ The Implementing Regulation provided mappings for 26 ECAIs, including Feri. Currently Feri no longer meets the ECAI definition in article 4(98) CRR, given the withdrawal of its CRA registration by ESMA. Mappings for those 25 ECAIs remain unchanged.

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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 to characterise 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 characterise each credit quality step ("benchmarks") remain unchanged with respect to the Implementing Regulation adopted by the Commission in October 2016.

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 ITS² with amendments, which affected the level of conservatism of the mapping. An Opinion was issued by the ESAs rejecting the amendments proposed by the Commission³.

The ESAs considered it appropriate, in line with their prudential objectives, that ECAIs with small pools of ratings should not be assigned mappings where the highest credit quality step could be achieved, given that creditworthiness cannot be adequately assessed against historical performance. This is also in line with the requirements for banks' internal estimations, as set out in Article 179 CRR. The ESAs agreed in their final draft ITS to provide a phase-in period of three years for ECAIs with limited ratings' data and thereafter to apply conservative mappings. The Commission rejected this approach, which would have applied to all five newly registered or certified ECAIs considered in this consultation paper, on market competition grounds and adopted the ITS with an "indefinitely extended" phase-in period.

As indicated in recital 27 of the ITS, the Commission proceeded to amend the draft ITS in respect of the provisions that may cause undue material disadvantage to smaller/newer ECAIs due to their more recent entry in the market. As a result the application of a more conservative treatment in cases of limited data, after the end of the phase-in period in 2019, was not adopted. Therefore, the approach of an "indefinitely extended" phase-in period has also been adopted here.

² <http://www.eba.europa.eu/documents/10180/1269185/Final+Draft+ITS+on+ECAIs%27%20Mapping.pdf/3f4b46bb-825e-4211-b199-519b6b3bf865>

³ <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 mappings for newly established ECAIs

Costs

The mapping is 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.

There are potential risks that ECAIs with limited ratings could leverage on the Commissions 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

Five additional ECAIs will be provided with a 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 power⁴.

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?

⁴ 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