



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

Public hearing, London 4 September 2017

# Outline

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  - New ECAIs
  - De-registration one ECAI
- Mappings for newly recognised ECAIs
- Solvency II
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# Background: CRR mandate

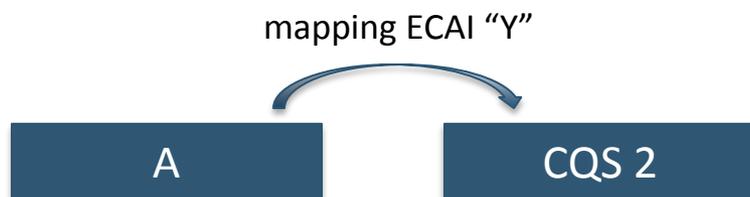
## Article 136

### Mapping of ECAI's credit assessments

1. EBA, EIOPA and ESMA shall, through the Joint Committee, develop draft implementing technical standards to specify for all ECAIs, with which of the credit quality steps set out in Section 2 the relevant credit assessments of the ECAI correspond ('mapping'). Those determinations shall be objective and consistent.

**Context:** Under the SA risk weights should be based on the exposure class to which the exposure is assigned and, if applicable, on its credit quality determined by reference to the credit assessments of ECAIs.

**Stylised example:** corporate exposure for which credit assessment “A” is available by nominated ECAI “Y”.



| Credit quality step | Risk weight |
|---------------------|-------------|
| 1                   | 20%         |
| 2                   | 50%         |
| 3                   | 100%        |
| 4                   | 100%        |
| 5                   | 150%        |
| 6                   | 150%        |

CRR Chapter 2: SA  
 - Section 2 on risk weights:  
 article 122 on corporates

# Background: Milestones

- Based on the draft ITS submitted by the JC of the ESAs, the Commission adopted on 7 October 2016 Implementing Regulation 2016/1799 specifying mappings for 26 ECAIs.

| 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      |           |                            |

# Rationale revised draft ITS (I)

- JC ESAs mandated to specify mappings “for all ECAIs”

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

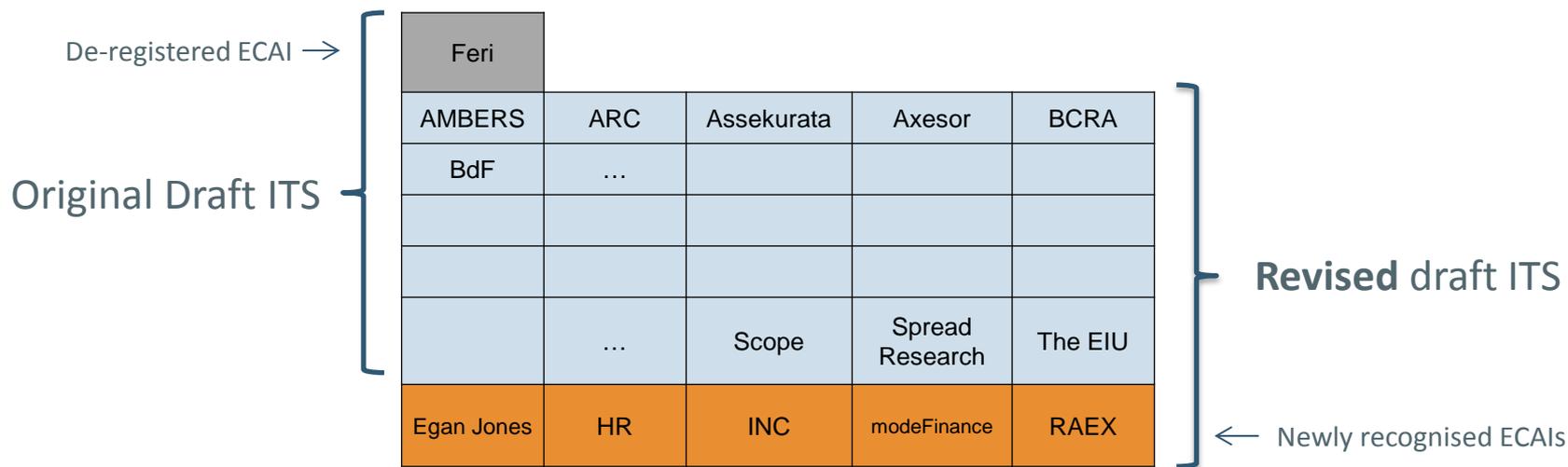
- Since the ESAs started preparing the original draft ITS:
  - ESMA has withdrawn the registration of one CRA
  - Five additional ECAIs have been recognised

| Newly recognised ECAIs             |
|------------------------------------|
| Egan-Jones Ratings Co.             |
| HR Ratings de México, S.A. de C.V. |
| INC Rating Sp. z o.o.              |
| modeFinance S.r.l.                 |
| Rating-Agentur Expert RA GmbH      |

# Rationale revised draft ITS (II)

- The draft ITS need amendment to reflect changes to the current ECAI population:
  - Produce mappings for the five newly established ECAIS
  - Remove references to de-registered ECAI
  - Unchanged mappings for the remaining 25 ECAIs, covered in the Implementing Regulation

## ECAIs population



## Mappings for newly recognised ECAIs

- **Calibration:** EBA methodology in line with adopted ITS
  - Use of quantitative factors
  - Use of qualitative factors
  - No corrections, in case of limited quantitative data
  
- Companion **Mapping Reports for new ECAIS** will also published.
  
- Amendment to existing ITS, extending the scope of ECAIs covered

# Mappings for newly recognised ECAIs

| Credit quality step                       | 1                   | 2       | 3         | 4                       | 5       | 6               |
|---|---------------------|---------|-----------|-------------------------|---------|-----------------|
| <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>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>INC Rating Sp. z o.o.</i>              |                     |         |           |                         |         |                 |
| Long-term issuer credit rating scale      | AAA, AA             | A       | BBB       | BB                      | B       | CCC,CC, C, D    |
| <i>modeFinance S.r.l.</i>                 |                     |         |           |                         |         |                 |
| Global long-term rating scale             | A1,A2               | A3      | B1        | B2                      | B3      | C1, C2, C3, D   |
| <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 |

## Mapping under Solvency II

- **Mandate** to JC ESAs under Directive 2009/138/EC (Solvency II)

*Article 109a*

**Harmonised technical inputs to standard formula**

1. For the purposes of the calculation of the Solvency Capital Requirement in accordance with the standard formula, the ESAs through the Joint Committee shall develop draft implementing technical standards on the allocation of credit assessments of external credit assessment institutions (ECAIs) to an objective scale of credit quality steps applying the steps specified in accordance with Article 111(1)(n).

- Solvency II requires **consistency** on the use of ECAI ratings with the banking regulation for the calculation of capital requirements
  - The allocation is produced following the mapping for the banking regulation => applied *mutatis mutandis* to the seven CQS in Solvency II

# Mapping under Solvency II

| Credit quality step                       | 0         | 1        | 2       | 3         | 4                         | 5       | 6                    |
|---|-----------|----------|---------|-----------|---------------------------|---------|----------------------|
| <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>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),<br>HR D (G) |
| Global short-term rating scale            | HR+1(G)   | HR1(G)   | HR2(G)  | HR3(G)    | HR4(G),HR5(G),<br>HR D(G) |         |                      |
| <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>modeFinance S.r.l.</i>                 |           |          |         |           |                           |         |                      |
| Global long-term rating scale             | A1        | A2       | A3      | B1        | B2                        | B3      | C1, C2, C3, D        |
| <i>Rating-Agentur Expert RA GmbH</i>      |           |          |         |           |                           |         |                      |
| International credit rating scale         | AAA       | AA       | A       | BBB       | BB                        | B       | CCC, CC, C, D,<br>E  |
| International reliability rating scale    | AAA       | AA       | A       | BBB       | BB                        | B       | CCC, CC, C, D,<br>E  |

## Tentative timeline

| Date              | Milestone  |
|-------------------|--|
| 18 July 2017      | Publication Consultation Paper   |
| 18 September 2017 | Closure Consultation Period  |
| 2017Q4            | Review Comments in response to the Consultation Paper and preparation final revised draft ITS                              |
| 2017Q4            | Review final revised draft ITS by internal committees and governing bodies of the ESAs and the Joint Committee of the ESAs |
| 2017Q4            | Submission revised draft ITS to the Commission   |

# Q&A



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