

Mapping of Rating-Agentur Expert RA GmbH's credit assessments under the Standardised Approach

1. Executive summary

1. This report describes the exercise carried out by the Joint Committee (JC) of the European Supervisory Authorities (ESAs) to determine the 'mapping'¹ of the credit assessments of Rating-Agentur Expert RA GmbH (RAEX-Europe), with respect to the version published in July 2017.
2. The methodology applied to produce the mapping remains as specified in the Commission's Implementing Regulation (EU) 2016/1799 ('the Implementing Regulation') laying down Implementing Technical Standards (ITS) with regard to the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for credit risk in accordance with Articles 136(1) and (3) of the Regulation (EU) No 575/2013 of the European Parliament and the Council ('the CRR'). This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) CRR.
3. The information base used to produce this mapping report reflects additional quantitative information collected after the submission of the draft Implementing Technical Standards by the JC to the European Commission. Regarding qualitative developments, a short-term rating scale has been introduced.
4. The mapping neither constitutes the one which the European Securities and Markets Authority (ESMA) shall report on in accordance with Article 21(4b) of Regulation (EC) No 1060/2009 ('the CRA Regulation') with the objective of allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity² nor should be understood as a comparison of the rating methodologies of RAEX-Europe with those of other ECAIs. This mapping should however be interpreted as the correspondence of the rating categories of RAEX-Europe with a regulatory scale which has been defined for prudential purposes. This implies that an appropriate degree of prudence may have been applied wherever not sufficient evidence has been found with regard to the degree of risk underlying the credit assessments.
5. As described in Recital 12 of the Implementing Regulation, it is necessary to avoid causing undue material disadvantage on those ECAIs which, due to their more recent entrance in the market,

¹ According to Article 136(1), the 'mapping' is the correspondence between the credit assessments of and ECAI and the Credit Quality Steps (CQS) set out in Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR).

² In this regard please see https://www.esma.europa.eu/sites/default/files/library/esma_2015-1473_report_on_the_possibility_of_establishing_one_or_more_mapping.pdf.

present limited quantitative information, with the view to balancing prudential with market concerns. Therefore, the relevance of quantitative factors for deriving the mapping should be relaxed. This allows ECAIs which present limited quantitative information to enter the market and increases competition. Updates to the mapping should be made wherever this becomes necessary to reflect additional quantitative information collected after the entry into force of the revised draft ITS.

6. The resulting mapping tables have been specified in Annex III of the revised draft ITS on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of the CRR. Figure 1 below shows the result for the only rating scale of RAEX-Europe.

Figure 1: Mapping of RAEX-Europe's International credit rating scale

Credit assessment	Credit quality step
AAA	1
AA	1
A	2
BBB	3
BB	4
B	5
CCC	6
CC	6
C	6
D	6
E	6

2. Introduction

7. This report describes the exercise carried out by the JC to determine the ‘mapping’ of the credit assessments of RAEX-Europe.
8. RAEX-Europe is a credit rating agency that registered with ESMA on 1 December 2015 and therefore meets the conditions to be an eligible ECAI³.
9. The methodology applied to produce the mapping remains as specified in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 (the Implementing Regulation) 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 (Capital Requirements Regulation – CRR). This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) of the CRR.
10. The information base used to produce this mapping report reflects additional quantitative information collected after the submission of the draft Implementing Technical Standards by the JC to the European Commission. The quantitative information is drawn from data available in the ESMA’s central repository (CEREP⁴) based on the credit rating information submitted by the ECAIs as part of their reporting obligations.
11. Regarding qualitative developments, the qualitative factors as specified in the Implementing Regulation remain unchanged, while a short-term rating scale has been introduced.
12. The following sections describe the rationale underlying the mapping exercise carried out by the JC to determine the mappings. With respect to the quantitative requirements used to perform the mapping, in case of ECAIs for which limited quantitative information is available the mapping has been performed following Article 6 of the Implementing Regulation. Section 3 describes the relevant ratings scales of RAEX-Europe for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of RAEX-Europe’s main rating scale, whereas Sections 5 refers to the mapping of the remaining rating scale. The mapping tables are shown in Appendix 4 of this document.

3. RAEX-Europe credit ratings and rating scales

11. RAEX-Europe produces a variety of credit ratings; Column 2 of Figure 2 in Appendix 1 shows the relevant credit ratings that may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)⁵:

³ The mapping does not contain any assessment of the registration process of RAEX carried out by ESMA.

⁴ <https://cerep.esma.europa.eu/cerep-web/>

⁵ As explained in recital 4 ITS, Article 4(1) CRA allows the use of the credit assessments for the determination of the risk-weighted exposure amounts as specified in Article 113(1) CRR as long as they meet the definition of credit rating in Article 3(1)(a) CRA.

- **Long-term issuer credit rating:** the credit rating of an entity represents the opinion of RAEX-Europe on the ability of that entity to fulfill its financial liabilities fully and in timely manner taking into account external stress- and support-factors.
- **Short-term issuer credit rating:** represents an opinion on the ability of the entity to fulfill its short-term financial liabilities fully and in a timely manner. Financial liabilities are classified as a short-term, if they have the initial maturity up to 12 months. Under certain circumstances this period could be changed due to the characteristics of the debt obligation or local regulatory factors.
- **Sovereign government credit rating:** the level of the rating reflects RAEX-Europe's opinion on the ability of the government to meet both its current and future financial liabilities.
- **Reliability credit rating:** represents an opinion of RAEX-Europe regarding the ability of the insurance company to fulfill its current and future liabilities to the policyholders and beneficiaries, taking into account external stress and support-factors.

12. RAEX-Europe assigns these credit ratings to two different rating scales as illustrated in column 3 of Figure 2 in Appendix 1. Therefore, a specific mapping has been prepared for the following rating scales:

- **International credit rating scale:** the specification of this rating scale is described in Figure 3 of Appendix 1.
- **International reliability rating scale:** the specification of this rating scale is described in Figure 4 of Appendix 1.
- **International short-term rating scale:** the specification of this rating scale is described in Figure 5 of Appendix 1.

13. The mapping of the international credit rating scale is explained in Section 4 and it has been derived in accordance with the quantitative and qualitative factors specified in the Implementing Regulation.

14. The mapping of the international reliability rating scale is explained in Section 5 while that of the international short-term rating scale is explained in Section 6. They have been indirectly derived from the mapping of the long-term credit rating scale and the internal correspondence established by RAEX-Europe, as specified in Article 13 of the Implementing Regulation.

4. Mapping of RAEX-Europe's international credit rating scale

15. The mapping of the International credit rating scale has consisted of two differentiated stages, where quantitative and qualitative factors were considered.

16. In the first stage, the quantitative factors referred to in Article 1 of the Implementing Regulation have been taken into account to differentiate between the levels of risk of each rating category. The long-run default rate of a rating category has been calculated in accordance with Article 6 of the Implementing Regulation, as a sufficient number of credit ratings is not available.

17. In a second stage, the qualitative factors proposed in Article 7 of the Implementing Regulation have been considered to challenge initial mapping produced in the previous stage.

4.1. Initial mapping based on the quantitative factors

4.1.1. Calculation of the long-run default rates

18. CEREP did not reflect information regarding the credit ratings issued by RAEX-Europe. Therefore the allocation of Credit Quality Steps (CQS) has been made in accordance with Article 6 of the Implementing Regulation, as shown in Figure 5 of Appendix 3.

19. For rating categories D and E, no calculation of default rate has been made since it already reflects a 'default' situation.

4.1.2. Mapping proposal based on the long-run default rate

13. As illustrated in Figure 6 in Appendix 4, the assignment of the rating categories to CQS was initially made in accordance with Article 6 of the Implementing Regulation. Therefore, the number of defaulted and non-defaulted rated items have been used together with the prior expectation of the equivalent rating category of the international rating scale.

- **AAA/AA/A/BBB/BB/B**: the number of rated items in each of these categories is equal or larger than the respective minimum required number of observed items given the number of defaulted items in the rating category. Thus the credit quality steps associated with the AAA/AA, A, BBB, BB, B rating categories in the international rating scale (CQS 1, CQS 2, CQS 3, CQS 4 and CQS 5 respectively) can be assigned.
- **CCC-C**: since the CQS associated with the equivalent rating category of the international rating scale is 6, the proposed mapping for these rating categories is also CQS 6.

14. The calculation of the number of items assigned the same rating category weights withdrawn ratings by 50% as indicated in Article 4(3) of the Implementing Regulation.

15. The definition of default has been taken into account for the calculation of the quantitative factors, following Article 8 of the Implementing Regulation.

4.2. Final mapping after review of the qualitative factors

20. The qualitative factors specified in Article 7 of the Implementing Regulation have been used to challenge the mapping proposed by the default rate calculation. Qualitative factors acquire more importance in the rating categories where quantitative evidence is not sufficient to test the default behavior⁶, as it is the case for all RAEX-Europe's rating categories.

21. The qualitative factors have not changed with respect to the mapping report published in July 2017. No amendment is proposed based on qualitative factors.

5. Mapping of RAEX-Europe international reliability rating scale

26. RAEX-Europe also produces the reliability rating scale (see Figure 4 in Appendix 1). The internal relationship established by RAEX-Europe between these two rating scales has been used to derive the mapping of the reliability rating scale, following Article 13 of the Implementing Regulation. According to RAEX-Europe, the rating categories can be considered comparable to those of the international credit rating scale. The mapping was derived from the meaning and relative position of the rating categories and the mapping of the corresponding categories of the international credit rating scale.

27. The mapping result for this scale is shown in Figure 9 of Appendix 4.

6. Mapping of RAEX-Europe's global short-term rating scale

28. RAEX-Europe has reported a short-term rating scale (see Figure 5 in Appendix 1). Given that the default information referred to these rating categories cannot be comparable with the 3-year time horizon that characterises the benchmarks established in the Implementing Regulation, the internal relationship established by RAEX-Europe between these two rating scales will be used to derive the mapping of the short-term credit rating scale (see Figure 6 in Appendix 1). This is in line with Article 13 of the Implementing Regulation and should ensure the consistency of the mappings proposed for RAEX-Europe.

28. The result of the mapping of this scale is shown in Figure 10 of Appendix 4.

29. The short-term rating scale is derived as follows:

- **RA1+.** It is internally mapped to long-term rating categories AAA to A+. The proposed mapping is CQS 1 as it is the most frequent CQS associated with the corresponding long-term categories.
- **RA1.** It is mapped to the long-term scale rating categories A+ to A-, which are associated to CQS2. Therefore the proposed mapping is CQS2.

⁶ The default behavior of a rating category is considered to be properly tested if the quantitative factors for that rating category are calculated under Articles 3 – 5 ITS.

- **RA2.** It is mapped to the long-term scale rating categories A- to BBB. The proposed mapping is CQS3, as it is the most frequent CQS associated with the corresponding long-term categories.
- **RA3.** It is mapped to the long-term scale rating categories BBB and BBB-, which are associated to CQS3. Therefore the proposed mapping is CQS3.
- **RA4.** It is mapped to the long-term scale rating categories BB+ to B+ The most frequent CQS is 4, which is therefore the proposed mapping.
- **RA5.** It is internally mapped to rating categories B+ to B-, which are associated to CQS5. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed is CQS 4.
- **C.** It is internally mapped to long-term rating categories CCC+ to C, which are associated to CQS 6. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed is CQS 4.
- **D.** It is internally mapped to long-term rating category D, which is associated to CQS6. Since the risk weight are all associated to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed is CQS 4.

Appendix 1: Credit ratings and rating scales

Figure 2: Relevant credit ratings and rating scales

SA exposure classes	Name of credit rating	Credit rating scale
Long-term ratings		
Central governments or central banks	Sovereign government credit rating	International credit rating scale
Regional Governments or Local Authorities	Long-term issuer credit rating	International credit rating scale
Corporates	Long-term issuer credit rating	International credit rating scale
	Reliability credit rating	International reliability credit rating scale
Institutions	Long-term issuer credit rating	International credit rating scale
	Reliability credit rating	International reliability credit rating scale
Short-term ratings		
Corporates	Short-term issuer credit rating	International credit rating scale
Institutions	Short-term issuer credit rating	International credit rating scale

Source: RAEX-Europe.

Figure 3: International credit rating scale

Credit assessment	Meaning of the credit assessment
AAA	The highest level of creditworthiness
AA	Very high level of creditworthiness
A	High level of creditworthiness
BBB	Moderately high level of creditworthiness
BB	Sufficient level of creditworthiness
B	Moderately low level of creditworthiness
CCC	Low level of creditworthiness
CC	Very low level of creditworthiness
C	The lowest level of creditworthiness
D	Default
E	License revocation or liquidation (<i>Applicable only for banks</i>)

Source: RAEX-Europe.

Figure 4: Reliability rating scale

Credit assessment	Meaning of the credit assessment
AAA	The highest level of reliability.
AA	Very high level of reliability.
A	High level of reliability.
BBB	Moderately high level of reliability.
BB	Sufficient level of reliability.
B	Moderately low level of reliability.
CCC	Low level of reliability.
CC	Very low level of reliability.
C	The lowest level of reliability
D	Default
E	License withdraw or liquidation.

Source: RAEX-Europe.



Figure 5: Short-term rating scale

Credit assessment	Meaning of the credit assessment
RA1	The maximum level of short-term creditworthiness. The entity has an exceptionally high capacity to fulfil all its short-term financial liabilities. It can be supplemented with the “+” to denote exceptionally strong credit capacity within the rating class.
RA2	High level of short-term creditworthiness. The entity has high capacity to fulfil all its short-term financial liabilities
RA3	Adequate level of short-term creditworthiness. The entity has adequate capacity to fulfil all its short-term financial liabilities
RA4	Speculative level of short-term creditworthiness. The entity currently has the capacity to meet its short-term financial liabilities; however, it can be affected by negative market and macroeconomic conditions of the operating environment
RA5	Highly speculative level of short-term creditworthiness. The entity currently has the capacity to meet its short-term financial liabilities; however, it is very vulnerable to the market and macroeconomic conditions of the operating environment
C	Low level of short-term creditworthiness. The entity has low capacity to fulfil all its short-term financial liabilities
D	Default. The entity is in default according to the Agency’s definition

Source: RAEX-Europe

Figure 6: Internal relationship between RAEX-Europe's long-term and short-term rating scales

Long term rating	Short term rating
AAA	RA1+
AA+	RA1+
AA	RA1+
AA–	RA1+
A+	RA1+ or RA1
A	RA1
A–	RA1 or RA2
BBB+	RA2
BBB	RA2 or RA3
BBB–	RA3
BB+	RA4
BB	RA4
BB–	RA4
B+	RA4 or RA5
B	RA5
B–	RA5
CCC+	C
CCC	C
CCC–	C
CC	C
C	C
D	D

Source: RAEX-Europe

Appendix 2: Definition of default

RAEX-Europe defines a default as follows:

For all types of entity the non-fulfillment of any type of financial on time and in a full amount by the rated entity. This general definition of default is supplemented by additional cases depending on the specific characteristics of the type of the rated entity (such as banks, non-financial non-holding companies, insurance companies, regions and municipalities, sovereign and other).

The non-fulfillment of any type of financial liabilities (for all types of entity) or insurance liabilities (only for insurance companies) on time and in a full amount by the rated entity is considered as default by the Agency.

This general definition of default can be supplemented by additional cases depending on the specific characteristics of the type of the rated entity (such as banks, non-financial non-holding companies, insurance companies, regions and municipalities, sovereign and other).

Additional cases of default for each type of the rated entity are provided in on RAEX-Europe's website⁷.

Source: RAEX-Europe.

⁷ http://raexpert.eu/files/compliance/Definition_of_Default_.pdf

Appendix 3: Default rates of each rating category

Figure 7: Small Pool Methodology

	AAA/AA	A	BBB	BB	B
CQS of equivalent international rating category	CQS 1	CQS 2	CQS 3	CQS 4	CQS5
N. observed defaulted items	0	0	0	0	0
Minimum N. rated items	0	0	0	0	0
Observed N. rated items	0	0	0	0	0
Mapping proposal	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5

Source: JC analysis based on CEREP data.

Appendix 4: Mappings of each rating scale

Figure 8: Mapping of RAEX-Europe's international credit rating scale

Credit assessment	Initial mapping <i>based on quantitative factor</i> (CQS)	Final review <i>based on qualitative factors</i> (CQS)	Main reason for the mapping
AAA	1	1	The quantitative factors are representative of the final CQS.
AA	1	1	
A	2	2	
BBB	3	3	
BB	4	4	
B	5	5	The meaning and relative position of the rating category is representative of the final CQS.
CCC	6	6	
CC	6	6	
C	6	6	
D	6	6	
E	6	6	

Figure 9: Mapping of RAEX-Europe's international reliability rating scale

Credit assessment	Corresponding long-term issuer credit rating scale assessment	Initial mapping <i>based on quantitative factors</i> (CQS)	Final review <i>based on qualitative factors</i> (CQS)	Main reason for the mapping
AAA	AAA	1	1	The final CQS has been determined based on the CQS associated with the corresponding international credit rating scale categories.
AA	AA	1	1	
A	A	2	2	
BBB	BBB	3	3	
BB	BB	4	4	
B	B	5	5	
CCC	CCC	6	6	
CC	CC	6	6	
C	C	6	6	
D	D	6	6	
E	E	6	6	

Figure 10: Mapping of RAEX-Europe's international short-term rating scale

Credit assessment	Corresponding rating category long-term scale	Range of CQS of corresponding long-term rating scale	Final review <i>based on qualitative factors</i> (CQS)	Main reason for the mapping
RA1+	AAA to A+	1/1/1/1/2	1	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category.
RA1	A+ to A-	2/2/2	2	
RA2	A- to BBB	2/3/3	3	
RA3	BBB and BBB-	3/3	3	
RA4	BB+ to B+	4/4/4/5	4	
RA5	B+ to B-	5/5/5	4	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category. The risk weights assigned to CQS 4 to 6 are all 150%, therefore CQS 4.
C	CCC+ to C	6	4	
D	D	6	4	