Amended Mapping of Banque de France's credit assessments under the Standardised Approach

1. Executive summary

1. This report describes the mapping exercise carried out by the Joint Committee to determine the 'mapping'[1] of the credit assessments of Banque de France (BdF), with respect to the version published in June 2021.

2. The methodology applied to produce the mapping is the one 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, the qualitative factors remain unchanged. Since January 2022, BdF discontinued its Global long-term issuer credit ratings scale and continues to use its Global ANACOT long-term issuer credit rating scale only, which was renamed from NEC to ANACOT

4. The mapping should not be understood as a comparison of the rating methodologies of BdF with those of other ECAIs. This mapping should however be interpreted as the correspondence of the rating categories of BdF 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, present limited quantitative information, with the view to balancing prudential with market concerns. Therefore, the relevance of quantitative factors for deriving the mapping

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

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 table have been specified in Annex III of the Consultation Paper on the revised draft ITS on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013. Figure 1 below shows the result for the rating scale of BdF.

Figure 1: Mapping of BdF Global ANACOT long-term issuer credit rating scale

Credit assessment	Credit quality step
1+	1
1	2
1-	2
2+	3
2	3
2-	3
3+	4
3	4
3-	4
4+	4
4	4
4-	4
5+	4
5	5
5-	5
6+	5
6	5
6-	5
7	6
8	6
P	6

2. Introduction

1. This report describes the mapping exercise carried out by the Joint Committee (JC) to determine the 'mapping' of the credit assessments of Banque de France (BdF), with respect to the version published in June 2021.

2. BdF is a credit rating agency that is not registered with ESMA due to its National Central Bank status. However, it meets the conditions to be an eligible credit assessment institution (ECAI) as per Article 4(1) subparagraph 98 of the CRR.

3. The methodology applied to produce the mapping is the one 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. Since BdF does not report its rating information to ESMA Central Repository (CEREP [2]) and RADAR, [3] all necessary information has been directly requested from BdF. In particular, quantitative and qualitative information has been used to obtain an overview of the main characteristics of this ECAI and to calculate the default rates of its credit assessments.

4. The following sections describe the rationale underlying the mapping exercise carried out by the Joint Committee (JC). Section 3 describes the relevant ratings scale of BdF for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of BdF's rating scale. The mapping table is shown in Appendix 4 of this document and have been specified in Annex III of the Consultation Paper on the ITS on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of the CRR.

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[2] CEREP is the central repository owned by ESMA to which all registered/certified CRAs have to report their credit assessments. http://cerep.esma.europa.eu/cerep-web/.

[3] Commission Delegated Regulation (EU) 2015/2 RADAR RTS.

3. BdF credit ratings and rating scales

5. BdF produces one type of credit ratings, the **Long-term issuer rating**, which may be used by institutions for the calculation of risk weights under the Standardised Approach (SA),[4] as shown in column 2 of Figure 4 in Appendix 1.

6. Since January 2022, BdF assigns these credit ratings to the **Global ANACOT long-term issuer credit rating scale[5]** only. Therefore, a specific mapping has been prepared for this rating scale. The specification of the rating scale is described in Figure 5 of Appendix 1.

4. Mapping of BdF's credit ratings scale

7. The mapping of the credit ratings scale has consisted of two differentiated stages where the quantitative and qualitative factors as well as the benchmarks specified in Article 136(2) CRR have been taken into account.

8. The Implementing Regulation on Mapping adopted by the Commission in October 2016 provided a correspondence between the credit assessments of BdF and the Credit Quality Steps set out in the Standardised Approach chapter of the Capital Requirements Regulation. This mapping allows the determination of capital requirements under the SA, for those exposure classes where the CRR establishes a relationship between Credit Quality Steps and risk weights.

9. Regarding the qualitative factors underpinning the mapping, BdF has not reported any change concerning:

   a. Rating scale (including removal of existing scales, amendments of existing scales including the meaning of rating categories, or introduction of new scales),

   b. Entrance in the solicited/unsolicited business for some of their existing rating types,

   c. Introduction of new types of ratings clarifying which solicitation status they have (e.g. corporate, unsolicited),

   d. Introduction of new credit ratings (e.g. bank deposit ratings),

   e. Material changes in the methodology (e.g. regarding base assumptions or underlying models) that would motivate a significant shift in the default rate behaviour of your rating categories. Please include changes in the definition of default and in the time horizon of the credit assessment.

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[4] 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.

[5] The Global long-term issuer credit ratings scale is not applicable anymore since this date.

10. Banque de France has completed a questionnaire to assess the qualitative factors underpinning the mapping.

11. As per Article 13 of the Implementing Regulation, the internal mapping of a rating category established by the ECAI is used as a relevant indication of the level of risk of the rating category to be mapped.

12. Given that no ratings were yet assigned to the newly implemented ANACOT rating scale, the internal relationship between BdF's previous rating scale and the ANACOT rating scale has been used as the main element to derive the mapping of the ANACOT rating scale.

13. More specifically, as each rating category of the new credit rating scale can be associated with a range of rating categories in the old rating scale, the CQS assigned has been determined based on the most frequently CQS assigned to the related rating categories of the existing scale. In case of draw, the most conservative CQS has been considered.

Figure 2: Preliminary mapping of ANACOT rating scale based on the internal relationship

Credit assessment ANACOT rating scale	Corresponding rating category previous scale	CQS range of corresponding rating category
1+	3++	CQS 1
1	3+	CQS 2
1-	3	CQS 2
2+	4+	CQS 3
2	4+	CQS 3
2-	4+	CQS 3
3+	4	CQS 4
3	4	CQS 4
3-	4	CQS 4
4+	4	CQS 4
4	5+	CQS 4
4-	5+	CQS 4
5+	5+	CQS 4
5	5	CQS 5
5-	5	CQS 5
6+	5	CQS 5

6	6	CQS 5
6-	6	CQS 5
7	7	CQS 6
8	8 / 9	CQS 6
P	P	CQS 6

14. Further, the mapping has been challenged using additional qualitative information. Article 12 of the Implementing Regulation specifies that ECAIs should provide **an estimate of the long-run default rate** associated with all items assigned the same rating category. To overcome the lack of data, BdF has performed the following analysis to provide the estimation:

a. Step 1: estimation of the impact of the qualitative analysis on the quantitative statistical rating based on observed historical data on period 2007 - 2016. Such calculations have been carried out with the methodology in force during that period. This estimation measures the ability of analysts to discriminate less risky / riskier companies for a given statistical rating.

b. Step 2: calculation of the default rate associated with the statistical rating under the new methodology. Then integration of the qualitative effect measured in step 1, to the default rate associated with the statistical part of the new methodology.

Figure 3: Estimated long-run default rate, by credit rating category

Credit assessment	Estimated long-run default rate
1+	0.0%
1	0.0%
1-	0.0%
2+	0.1%
2	0.1%
2-	0.2%
3+	0.3%
3	0.4%
3-	0.5%
4+	1.1%
4	2.2%
4-	3.3%
5+	3.3%
5	7.3%
5-	7.0%
6+	8.0%

6	10.5%
6-	30.6%
7	31.3%
8	47.5%

Source: BdF

15. The comparison of the estimated long-run default rate with the long-run benchmarks established in Article 14 of the Implementing Regulation, please see Figure 3, would yield a more favourable allocation of credit quality steps for a number of rating categories, with respect to the analysis resulting from the internal mapping between the new and the old rating scale. However, the estimate of the long-run default rate should be taken with caution given the lack of data backing the performance of the scale and therefore it is not recommended to upgrade the mapping based on this factor. The performance of the new rating scale will be monitored against the actual data collected over time. This will allow to adjust the mapping if needed, would the rating information warrant to do so.

16. Regarding the **definition of default,** Banque de France meets all the benchmark default events specified in Article 8 of the Regulation. A breakdown of actual defaults registered by Banque de France shows that bankruptcies represent around half of the total default events, proving through the data that Banque de France applies a strict definition of default. Therefore, no adjustment is proposed based on this factor.

17. Regarding the **time horizon** reflected by the rating category, BdF rating methodology focuses on a three-year horizon, consistent with article 4(2).

18. Based on the above considerations, the proposed mapping for the new rating scale of Banque de France is shown in Figure 6 in Appendix 4.

Appendix 1: Credit ratings and rating scales

Figure 4: BdF relevant credit ratings and rating scales

SA exposure classes	Name of credit rating	Credit rating scale
Long-term ratings		
Corporates	Long-term issuer rating	Global ANACOT long-term issuer credit ratings scale

Source: BdF

Figure 5: Global ANACOT long-term issuer credit rating scale

Rating category	Meaning of the credit assessment
1+	Excellent + +
1	Excellent +
1-	Excellent
2+	Very satisfactory + +
2	Very satisfactory +
2-	Very satisfactory
3+	Strong + +
3	Strong +
3-	Strong
4+	Good +
4	Good
4-	Intermediary +
5+	Intermediary –
5	Fragile
5-	Quite Weak
6+	Weak
6	Very Weak
6-	Faces major uncertainties
7	Currently vulnerable
8	Currently highly vulnerable
P	Bankruptcy

Source: BdF

Appendix 2: Definition of default

BdF adopts two concepts corresponding to a more or less comprehensive definition of default:

– a company is said to be in "**failure**" if legal proceedings (reorganisation procedure or judicial winding up) have been initiated against it, whereby the company receives a P rating. Even when this rating is replaced by a more favourable rating, for example following a business continuation plan, the company nonetheless remains in the "failure" category for statistical calculations;

– a company is said to be in "**default**" if legal proceedings have been initiated against it or if the company receives a rating of 9 during the period of observation following trade bill payment incidents declared by one or several credit institutions. The period considered for the assigning of this rating is the past six months. Thus, after the allocation of a rating of 9, if a company's payments become regular again, it can be upgraded from the "default" category and assigned a more favourable rating, following a comprehensive study by the analyst. The company's rating nonetheless remains within the "default" category for statistical calculations.

By definition, the default rate calculated for a given population is thus always greater than or equal to the probability of failure and the default rate for companies initially rated 9 is 100%.

The concept of business failure is used as a reference to measure the BdF's performance within the framework of the system of reporting to the European Central Bank (ECB) by national central banks that rate private credit. This objective opinion of risk is widely made available, almost immediately, as soon as the declaration is made.

The concept of default, which is more extensive, is based on information from the database of trade bill payment incidents (CIPE) managed by the BdF by virtue of regulation n° 86-08 of the Banking regulations committee, dated 27 February 1986. The CIPE receives and centralises declarations by credit institutions of trade bill payment incidents. Their gravity influences the rating level, from 7 (trade bill payment incidents arising from the company's inability to pay for the past 6 months) to 8 (on the basis of payment incidents reported over the past 6 months, the company's solvency is under threat), or 9 (on the basis of payment incidents reported over the past 6 months, the company's solvency is seriously compromised).

In comparison with business failure, default identified through payment incidents allows defaults to be detected earlier and more comprehensively. Indeed, the high delinquency rate of companies rated 9 that record major payment incidents and rarely experience a revival of fortune warrants the inclusion of this last credit rating in a default category consistent with the definition given by the Basel Committee.

The default considered here is limited to bills of exchange and is not measured with aggregate debt, although the significance of trade credit in the financing of companies makes it particularly appropriate to consider these payment incidents in the analysis of credit risk.

This concept of default also provides a good compromise between the requirements of predictive power and stability:

- a sufficiently predictable indicator because the default on trade bills often precedes the default on banking loans, which in turn precedes the default on bonds and the "legal" default established by the initiation of insolvency proceedings (because the latter two bring to light the company's difficulties)

- a sufficiently "stable" indicator to be operational, as it is not associated with an excessively rapid or high rate of return to "healthy" categories.

Source: BdF

Appendix 3: Mappings of each rating scale

Figure 6: Mapping of BdF Global ANACOT long-term issuer credit rating scale

Credit assessment	Corresponding rating category previous scale	CQS range of corresponding rating category	Final review *based on qualitative factors*	Main reason for the mapping
1+	3++	CQS 1	**CQS 1**	
1	3+	CQS 2	**CQS 2**	
1-	3	CQS 2	**CQS 2**	
2+	4+	CQS 3	**CQS 3**	
2	4+	CQS 3	**CQS 3**	
2-	4+	CQS 3	**CQS 3**	
3+	4	CQS 4	**CQS 4**	The final CQS has been determined based on the most frequent step associated with the corresponding credit rating category of the previous credit rating scale.
3	4	CQS 4	**CQS 4**	
3-	4	CQS 4	**CQS 4**	
4+	4	CQS 4	**CQS 4**	
4	5+	CQS 4	**CQS 4**	
4-	5+	CQS 4	**CQS 4**	
5+	5+	CQS 4	**CQS 4**	
5	5	CQS 5	**CQS 5**	

5-	5	CQS 5	**CQS 5**
6+	5	CQS 5	**CQS 5**
6	6	CQS 5	**CQS 5**
6-	6	CQS 5	**CQS 5**
7	7	CQS 6	**CQS 6**
8	8 / 9	CQS 6	**CQS 6**
P	P	CQS 6	**CQS 6**