

Amended Draft Mapping of GBB credit assessments under the Standardised Approach

1. Executive summary

1. This report describes the mapping exercise carried out by the Joint Committee (JC) of the European Supervisory Authorities (ESAs) to propose an amended ‘mapping’¹ report of the credit assessments of GBB-Rating Gesellschaft fuer Bonitaets-beurteilung mbH’s (GBB), with respect to the version published in November 2015.
2. The methodology applied to produce the mapping remains as specified in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 (the Implementing Regulation)² 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.
3. The information base used to produce this mapping report reflects additional quantitative information collected after the production of the mapping report published in November 2015. Regarding qualitative developments, the qualitative factors as specified in the Implementing Regulation remain unchanged, and GBB started producing covered bonds credit assessments.
4. The mapping neither constitutes the one which ESMA shall report on in accordance with Article 21(4b) of Regulation (EC) No 1060/2009 (Credit Rating Agencies Regulation - CRA) with the objective of allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity³ nor should be understood as a comparison of the rating methodologies of GBB with those of other ECAs. This mapping should however be interpreted as the correspondence of the rating categories of GBB 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.

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).

² OJ L 275, 12.10.2016, p. 3-18

³ In this regard please consider http://www.esma.europa.eu/system/files/esma__2015-1473_report_on_the_possibility_of_establishing_one_or_more_mapping....pdf.

5. As described in Recital 12 of the Implementing Regulation, it is necessary to avoid causing undue material disadvantage on those ECAs 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 is relaxed. This allows ECAs which present limited quantitative information to enter the market and increases competition. Therefore, the relevance of quantitative factors for deriving the mapping should be relaxed. This allows ECAs which present limited quantitative information to enter the market and increases competition.
6. The resulting mapping tables have been specified in Annex III of the Consultation Paper on the revised draft ITS on the mapping of ECAs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013. Figure 1 below shows the result for GBB rating scale, the Global long-term rating scale.

Figure 1: Mapping of GBB's Global long-term 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

2. Introduction

7. This report describes the mapping exercise carried out by the JC to determine the ‘mapping’ of the credit assessments of GBB-Rating Gesellschaft fuer Bonitaets-beurteilung mbH’s (GBB), with respect to the version published in November 2015.
8. GBB is a credit rating agency that has been registered with ESMA on 28 July 2011 and therefore meets the conditions to be an eligible credit assessment institution (ECAI)⁴.
9. The methodology applied to produce the mapping is the one specified in the Implementing Regulation. 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. Regarding qualitative developments, the qualitative factors remain unchanged and GBB started producing covered bonds credit assessments. The quantitative information is drawn from data available in the ESMA’s central repository (CEREP⁵) based on the credit rating information submitted by the ECAIs as part of their reporting obligations.
11. The following sections describe the rationale underlying the mapping exercise carried out by the Joint Committee (JC) to determine the mappings Section 3 describes the relevant ratings scales of GBB for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of GBB rating. The mapping table is shown in Appendix 4 of this document and 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.

⁴ It is to be noted that the mapping does not contain any assessment of the registration process of GBB carried out by ESMA.

⁵ <https://cerp.esma.europa.eu/cerp-web/>

3. GBB credit ratings and rating scales

12. GBB produces **long-term credit ratings (issuer rating)** and **covered bonds** ratings, which may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)⁶. The ratings are shown in Column 2 of Figure 2 in Appendix 1.
13. Long-term credit rating (issuer rating) is an evaluation of the creditworthiness of (i) private sector banks, a majority of which are associated to the Deposit Protection Fund of the German banks or seek to be associated to the Deposit Protection Fund of the German banks, (ii) building societies, (iii) companies moving leasable assets and (iv) small- and medium-sized corporates.
14. Additionally, in 2019 GBB introduced credit assessments on covered bonds.
15. GBB assigns these credit ratings to the **Global long-term rating scale** as illustrated in column 3 of Figure 2 in Appendix 1. Therefore, a specific mapping has been prepared for this scale. The specification of the Global long-term rating scale is described in Figure 3 of Appendix 1.
16. The mapping of the Global long-term rating scale is explained in Section 4 and it has been derived in accordance with the quantitative factors, qualitative factors and benchmarks specified in the ITS.

4. Mapping of GBB's Global long-term rating scale

17. The mapping of the Global long-term rating 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.
18. In the first stage, the quantitative factors referred to in Article 1 of the ITS 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 ITS, as the number of credit ratings cannot be considered to be sufficient as per Article 3(1)(a) of the Implementing Regulation.
19. In a second stage, the qualitative factors proposed in Article 7 of the ITS have been considered to challenge the result of the previous stage, especially in those ratings categories where less default data has been available.

⁶ 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.

4.1. Initial mapping based on the quantitative factors

4.1.1. Calculation of the short-run and long-run default rates

20. In line with the original mapping report, the number of credit ratings is not sufficient for the calculation of the long-run default rate, as per article 3(1)(a) of the Implementing Regulation on mapping. This is determined by comparing the number of ratings representing the inverse of the long-run default rate benchmark of the rating category, as referred to in point (a) of Article 14 of the Implementing Regulation.

21. The number of credit ratings for all rating categories of the GBB Global rating scale cannot be considered to be sufficient for the calculation of the short run and long run default rates specified in Articles 3 – 5 of the Implementing Regulation. Therefore the allocation to the CQS has been made in accordance with Article 6 of the Implementing Regulation, as shown in Figure 6 of Appendix 3.

22. For D rating category, no calculation of default rates has been made since it already reflects a 'default' situation.

4.1.2. Mapping proposal based on the long run default rate

23. As illustrated in the second column of Figure 7 in Appendix 4, the assignment of the rating categories to credit quality steps has been initially made in accordance with Article 6 of the ITS. 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/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 step associated with the AAA/AA, BBB, BB, B rating categories in the international rating scale (CQS 1, CQS 3, CQS4 and CQS 5, respectively) can be assigned.
- **A:** As shown in Figure 6 of Appendix 3, the comparison of defaulted and non-defaulted items as per Article 6 of the Implementing Regulation yields to an improvement in performance representative of a more favourable credit quality step and it is now consistent with an upgrade to CQS 2.
- **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.

4.2. Final mapping after review of the qualitative factors

24. 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 behavior⁷, as is the case for all rating categories of the Global long-term rating scale.

25.GBB has not registered material changes in the qualitative factors since the last draft ITS were submitted by the JC to the Commission.

⁷ 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.

Appendix 1: Credit ratings and rating scales

Figure 2: GBB's relevant credit ratings and rating scales

SA exposure classes	Name of credit rating	Credit rating scale
Long-term ratings		
Institutions	Long-term issuer credit rating	Global long-term rating scale
Corporates	Long-term issuer credit rating	Global long-term rating scale
Covered bonds	Long-term issue credit rating	Global long-term rating scale

Figure 3: Global long-term rating scale

Credit assessment	Meaning of the credit assessment
AAA	Highest financial standing
AA	Very high financial standing
A	High financial standing
BBB	Good financial standing
BB	Satisfactory financial standing
B	Financial standing scarcely adequate
CCC	Inadequate financial standing
CC	Insufficient financial standing
C	Insufficient financial standing
D	Moratorium / insolvency

Source: GBB

Appendix 2: Definition of default

The default definition is the legal definition, i.e. a default occurs in case of moratorium respectively bankruptcy and missed payments for financial facilities as far it is not fixed as an option in the contract. A voluntary renunciation of payments from investor's side is not a default.

GBB also reports a default if there is a missed payment of the coupon of a debt issue as far the missed payment is not covered by contractual terms of the legal agreement or investors voluntarily renouncing their right of payment.

Source: GBB

Appendix 3: Default rates of each rating category

Figure 4: Number of weighted items⁸

	AAA	AA	A	BBB	BB	B	CCC-C
01/07/2007	0	23	97.5	41	17.5	2	2
01/01/2008	0	23	98.5	40	17	2	2
01/07/2008	0	22.5	100.5	40	16	2	2
01/01/2009	0	19.5	97.5	42.5	12	5.5	3
01/07/2009	0	20.5	97.5	43	12.5	5.5	3
01/01/2010	0	13	85	55	11	5	7
01/07/2010	0	13	87	55	11	5	7
01/01/2011	0	12	88.5	55	11.5	6	7.5
01/07/2011	0	12	86.5	54	11.5	6	8.5
01/01/2012	0	11	90	53.5	7.5	3	9.5
01/07/2012	0	13	91.5	56	7.5	3	9.5
01/01/2013	0	15	81.5	62	11	2	6.5
01/07/2013	0	15	83.5	61	11	2	6.5
01/01/2014	0	10	96.5	58.5	10.5	2	5.5
01/07/2014	0	10	94.5	53	11.5	2	5.5
01/01/2015	0	10	95	54.5	12.5	2	5
01/07/2015	0	10	92	53.5	11.5	2	5
01/01/2016	0	10.5	88	51	19	5	0
01/07/2016	0	5.5	45	28.5	8.5	2.5	0
01/01/2017	0.5	5.5	46	28.5	11.5	0.5	1
01/07/2017	0.5	6	44.5	27	9	1	1.5
01/07/2018	0.5	7	45.5	28	7	1.5	1.5
01/01/2018	0.5	7.5	44.5	26	6.5	2	1.5

Source: Joint Committee calculations based on CEREP data

⁸ Withdrawn ratings have been weighted by 50% in accordance with Article 4(3) of the ITS.

Figure 5: Number of defaulted rated items

	AAA	AA	A	BBB	BB	B	CCC-C
01/07/2007	0	0	2	0	1	0	0
01/01/2008	0	0	2	0	1	0	0
01/07/2008	0	0	2	0	0	0	0
01/01/2009	0	0	0	0	0	0	0
01/07/2009	0	0	0	0	0	0	0
01/01/2010	0	0	0	0	0	0	0
01/07/2010	0	0	0	0	0	0	0
01/01/2011	0	0	0	0	0	0	0
01/07/2011	0	0	0	0	0	0	0
01/01/2012	0	0	0	0	0	0	0
01/07/2012	0	0	0	0	0	0	0
01/01/2013	0	0	0	0	0	0	0
01/07/2013	0	0	0	1	0	0	0
01/01/2014	0	0	0	1	0	0	0
01/07/2014	0	0	0	1	0	0	0
01/01/2015	0	0	0	1	0	0	0
01/07/2015	0	0	0	1	0	0	0
01/01/2016	0	0	0	0	1	0	0
01/07/2016	0	0	0	0	0	0	0
01/01/2017	0	0	0	0	0	0	0
01/07/2017	0	0	0	0	0	0	0
01/07/2018	0	0	0	0	0	0	0
01/01/2018	0	0	0	0	0	0	0

Source: Joint Committee calculations based on CEREP data

Figure 6: Mapping proposal for rating categories with a non-sufficient number of credit ratings

Data cohort 1	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	6	0	2	0
Minimum N. rated items	0	699	0	21	0
Observed N. rated items	146.5	752	371.5	108.5	33
Mapping proposal	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5

Data cohort 2	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	5	1
Minimum N. rated items	0	0	0	47	0
Observed N. rated items	116.5	899	557	113.5	29
Mapping proposal	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5

Source: Joint Committee calculations based on CEREP data

Appendix 4: Mappings of each rating scale

Figure 7: Mapping of GBB's Global long-term rating scale

Credit assessment	Initial mapping based on LR DR (CQS)	Review based on SR DR (CQS)	Final review based on qualitative factors (CQS)	Main reason for the mapping
AAA	1	n.a.	1	The quantitative factors are representative of the final CQS.
AA	1	n.a.	1	
A	2	n.a.	2	The quantitative factors are representative of the final CQS.
BBB	3	n.a.	3	The quantitative factors are representative of the final CQS.
BB	4	n.a.	4	The quantitative factors are representative of the final CQS.
B	5	n.a.	5	The quantitative factors are representative of the final CQS.
CCC	6	n.a.	6	The quantitative factors are representative of the final CQS.
CC	6	n.a.	6	
C	6	n.a.	6	
D	6	n.a.	6	The meaning and relative position of the rating category is representative of the final CQS.