

Creditreform Rating AG's credit assessments under the Standardised Approach

1. Executive summary¹

1. This note describes lists the mapping outcome proposed by the Joint Committee (JC) of the European Supervisory Authorities (ESAs) on the credit assessments of Creditreform Ratings AG (Creditreform), with respect to the version published in May 2019.
2. The methodology applied by JC of the ESAs to propose an amended mapping² remains as specified in Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 (the Implementing Regulation)³ 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 May 2019. Regarding qualitative developments, the qualitative factors as specified in the Implementing Regulation remain unchanged.
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 entity⁴ nor should be understood as a comparison of the rating methodologies of Creditreform with those of other ECAs. This mapping should however be interpreted as the

¹ The Joint Committee (JC) of the European Supervisory Authorities (ESAs) produces mapping reports illustrating how the outcome of the mapping assessment has been reached, based on the methodology set out in the Implementing Regulation (EU) 2016/1799 of 7 October 2016. While mapping reports are not mandated by the Capital Requirements Regulation, they are produced by own initiative to enhance transparency.

The JC of the ESAs has not received the consent from Creditreform AG to publish the information transmitted by the ECAI for the purposes of assessing the mapping. Therefore, the JC of the ESAs is not in a position to provide similar information for Creditreform AG as for other ECAs having consented to the publication of their mapping reports.

² 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).

³ OJ L 275, 12.10.2016, p. 3-18

⁴ In this regard please consider https://www.esma.europa.eu/sites/default/files/library/esma_2015-1473_report_on_the_possibility_of_establishing_one_or_more_mapping.pdf.

correspondence of the rating categories of Creditreform with a regulatory scale which has been defined for prudential purposes.

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 is relaxed. This allows ECAIs 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 ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013. Figure 1 below shows the result for Creditreform's long-term issuer rating scale.

Figure 1: Mapping of Creditreform's long-term issuer rating scale

Credit assessment	Credit quality step
AAA	1
AA	1
A	2
BBB	4
BB	5
B	5
C	6
SD	6
D	6

2. Introduction

7. Creditreform is a credit rating agency that registered with ESMA on 18 May 2011 and therefore meets the conditions to be an eligible credit assessment institution (ECAI)⁵.
8. 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.
9. The information base used to produce this mapping report reflects additional information collected after the production of the mapping report published in May 2019. Regarding qualitative developments, the qualitative factors as specified in the Implementing Regulation remain unchanged with respect to the mapping report published in May 2019. The quantitative information has been sourced from data available in ESMA's central repository (CEREP⁶).

3. Creditreform credit ratings and rating scales

10. Creditreform produces a variety of types of credit ratings, which may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)⁷, as shown in column 2 of Figure 2 in Appendix 1:

- **Long term bank issuer rating**, defined as establishing the extent to which the bank under review will be able to meet the contractual obligations of its various financing instruments fully and on time.
- **Short-term bank issuer rating**, defined as the long term bank issuer rating, but referring to a horizon of up to 1 year.
- **Bank issue rating**, defined as having a modular structure and being based on the long-term issuer rating of the bank under review. Additional criteria – such as the bail-in cascade pursuant to the BRRD (Bank Recovery and Resolution Directive), the type and class of instrument and the structure of total liabilities – are also being taken into account, potentially leading to an upgrade or a downgrade of certain classes of instruments. Bank ratings may be accompanied by simultaneously conducted bank capital and unsecured debt instrument ratings, optionally also by ratings for specific issues.

⁵ It is important to note that the mapping does not contain any assessment of the registration process of Creditreform carried out by ESMA.

⁶ <https://cerep.esma.europa.eu/cerep-web/>

⁷ As explained in recital 4 of the Implementing Regulation, 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.

- **Corporate issuer ratings**, defined as assessing the financial strength of the company or issuer under review in an integrated rating process. This enables potential investors and business partners to develop a reliable assessment of whether or not the company or issuer in question will be able to meet its financial obligations fully and on time.
- **Corporate issue ratings**, defined as providing assessments of the credit quality of individual issues by non-financial companies, including – for example – promissory notes, loans, corporate bonds or any other form of borrowed funds.
- **SME issuer rating**, defined as assessing the financial strength of the issuer under review in an integrated rating process. This enables potential investors and business partners to develop a reliable assessment of whether or not the company or issuer in question will be able to meet its financial obligations fully and on time.
- **SME issue rating**, defined as providing assessments of the credit quality of individual issues by non-financial companies, including – for example – promissory notes, loans, corporate bonds or any other form of borrowed funds.
- **Bank covered bonds rating**, defined as primarily based on an analysis of the issuer, following which the legal framework and the structure of the issue will be examined.
- **Sovereign issuer ratings**, defined as providing assessments of the creditworthiness of a sovereign in its capacity as a debtor with universally comparable standards across different levels of economic development.
- **Sovereign issue ratings**, defined as ratings for specific debt instruments or bonds that have been issued by governments either in local or foreign currency.
- **Institutional investor debt rating**, defined as using asset-based finance ratings to analyze directly- or indirectly-financed investments. The product range includes ratings in different asset categories, for private equity and private debt investments as well as for investments in fields such as infrastructure, renewables, real estate, aviation and logistics.

Creditreform assigns these credit ratings to 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:

- **Long-term issuer rating scale.** The specification of this rating scale is described in Figure 3 of Appendix 1.
- **Long-term issue rating scale.** The specification of this rating scale is described in Figure 4 of Appendix 1.
- **Short-term rating scale.** The specification of this rating scale is described in Figure 5 of Appendix 1.

Appendix 1: Credit ratings and rating scales

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

SA exposure classes	Name of credit rating	Credit rating scale
Central governments or central banks	Sovereign issuer rating	Long-term issuer rating scale
	Sovereign issue rating	Long-term issue rating scale
Public sector entities	Corporate issuer rating	Long-term issuer rating scale
	Corporate issue rating	Long-term issue rating scale
Institutions	Long-term bank issuer rating	Long-term issuer rating scale
	Short-term bank issuer rating	Short-term rating scale
	Bank issue rating	Long-term issue rating scale
Corporates	Corporate issuer rating	Long-term issuer rating scale
	Corporate issue rating	Long-term issue rating scale
	SME issuer rating	Long-term issuer rating scale
	SME issue rating	Long-term issue rating scale
Covered bonds	Bank covered bonds rating	Long-term issue rating scale
	Institutional investor debt rating	Long-term issue rating scale

Figure 3: Long-term issuer rating scale

Credit assessment	Meaning of the credit assessment
AAA	Highest level of creditworthiness, lowest default risk
AA	Very high level of creditworthiness, very low default risk
A	High level of creditworthiness, low default risk
BBB	Highly satisfactory level of creditworthiness, low to medium default risk
BB	Satisfactory level of creditworthiness, medium default risk s
B	Moderate level of creditworthiness, increased default risk
C	Low level of creditworthiness, high or very high default risk
SD	Insufficient level of creditworthiness, selective default of a considerable proportion of the company's payment obligations
D	Insufficient level of creditworthiness, default, insolvency

Source: Creditreform

Figure 4: Long-term issue rating scale

Credit assessment	Meaning of the credit assessment
AAA	Highest level of credit quality, lowest investment risk
AA	Very high level of credit quality, very low investment risk
A	High level of credit quality, low investment risk
BBB	Highly satisfactory level of credit quality, low to medium investment risk
BB	Satisfactory level of credit quality, medium investment risk
B	Moderate level of credit quality, increased investment risk
C	Low level of credit quality, high or very high investment risk
D	Insufficient level of credit quality, total loss of investment

Source: Creditreform

Figure 5: Short-term rating scale

Credit assessment	Meaning of the credit assessment
L1	Extraordinarily high level of liquidity
L2	High level of liquidity
L3	Adequate level of liquidity
NEL	Inadequate level of liquidity or liquidity at risk
D	Default

Source: Creditreform

Appendix 2: Mappings for each rating scale

Figure 6: Mapping of Creditreform's Long-term issuer rating scale

Credit assessment	Credit Quality Step
AAA	1
AA	1
A	2
BBB	4
BB	5
B	5
C	6
D	6
SD	6

Figure 11: Mapping of Creditreform’s Short-term credit rating scale

Credit assessment	Credit Quality Step
L1	1
L2	2
L3	4
NEL	4
D	4

Figure 12: Mapping of Creditreform's Long-term issue credit rating scale

Credit assessment	Credit Quality Step
AAA	1
AA	1
A	2
BBB	4
BB	5
B	5
C	6
D	6