

Amended Draft Mapping of BCRA 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 BCRA – Credit Rating Agency AD (BCRA), with respect to the version published in May 2019.
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 additional quantitative and qualitative information collected after the production of the mapping report published in May 2019. Regarding qualitative developments, the qualitative factors as described in the Implementing Regulation remain unchanged, while the ECAI has introduced credit assessments for bank deposit ratings.
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 BCRA with those of other ECAIs. This mapping should however be interpreted as the correspondence of the rating categories of BCRA with a regulatory scale which has been defined for prudential purposes.

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 https://www.esma.europa.eu/sites/default/files/library/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 to 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 BCRA's main rating scale, the Global long-term rating scale.

Figure 1: Mapping of BCRA'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 propose an amended 'mapping' report of the credit assessments of BCRA – Credit Rating Agency AD (BCRA), with respect to the version published in May 2019.
8. BCRA is a credit rating agency that registered with ESMA on 6 April 2011 and therefore meets the conditions to be an eligible credit assessment institution (ECAI)⁴.
9. 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. 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.
10. 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 JC. Section 3 describes the relevant ratings scales of BCRA for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of BCRA's global long-term rating scale. Section 5 refers to the mapping of the global short-term rating scale while Section 6 describes the mapping for the remaining rating scales. 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 important to note that the mapping does not contain any assessment of the registration process of BCRA carried out by ESMA.

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

3. BCRA credit ratings and rating scales

12. BCRA 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)⁶:

- **Long-term corporate credit rating** - The corporate credit rating is an appraisal of the risk from entry in arrears, or from inability for payment of the liabilities of a given Company. It expresses an external, objective, and independent opinion for the capability of the Company to serve its liabilities in full, and on time. The ratings express the probability of default, without taking into consideration the level of the expected loss in a case of default.
- **Short-term corporate credit rating** - It is based on the same philosophy as the long-term corporate credit rating but the short-term rating presents an opinion for the possibility that the rated Company fails to meet its liabilities, within the short term (up to 12 months).
- **Long-term bank financial strength rating** - the analytical framework which includes evaluation of the operating environment and of the main internal factors as there are capital adequacy, resources, asset quality, management, quality of income, liquidity, size and systems of credit institutions.
- **Short-term bank financial strength rating** - It is based on the same philosophy as the long-term bank financial strength rating but the short-term rating presents an opinion for the possibility that the rated bank fails to meet its liabilities, within the short term (up to 12 months).
- **Long-term bank deposit rating** – it is an assessment of the ability of the rated bank to repay deposits.
- **Short-term bank deposit rating** – it is an assessment of the ability of the rated bank to repay deposits (up to 12 months).
- **Claims paying ability rating of insurance companies** - This rating constitutes an opinion about the ability of the insurance company to pay claims of policyholders and to fulfil its obligations on time.
- **Long-term group of corporate units (holdings) credit rating** - This rating is an assessment of the collective financial strength of the holding, the strategic importance of each of the holding's units for the group as a whole, and the individual ratings of the holding's units as affected by the costs and benefits resulting from the units' association with the holding.

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.

- **Short-term group of corporate units (holdings) credit rating** - This rating is an assessment of the collective financial strength of the holding, the strategic importance of each of the holding's units for the group as a whole, and the individual ratings of the holding's units as affected by the costs and benefits resulting from the units' association with the holding. A short-term rating presents an opinion for the possibility that the rated holding fails to service its obligations within the short term (up to 12 months).
- **Long-term Leasing Companies Credit Rating** - This rating constitutes an opinion about the ability of the Leasing company to meet its financial commitments as they come due. The analysis is focused on type of leasing activity, capital adequacy, credit indebtedness, liquidity and risk management (including customers' risks assessment procedures and non-performance portfolio management).
- **Short-term Leasing Companies Credit Rating** - the short-term reflects the possibility of the leasing company of servicing the short-term/current liabilities (within one year).
- **Long-term Issue Credit Rating** - Issuer credit rating is assigned in accordance with the appropriate methodology for the rating type of the issuer (bank, corporation, municipality, etc.). The credit rating is an opinion on the risk of a financial loss to the investor due to a nonperformance on the issue.
- **Short-term Issue Credit Rating** - Issuer credit rating is assigned in accordance with the appropriate methodology for the rating type of the issuer (bank, corporation, municipality, etc.). The credit rating is an opinion on the risk of a financial loss to the investor due to a nonperformance on the issue. A short-term rating presents an opinion for the possibility of nonperformance on the issue within the short term (up to 12 months).
- **Long-term sovereign credit rating** – an opinion on the creditworthiness of the issuer, i.e., it is an opinion on the ability and willingness of the sovereign/sub-sovereign to service its debt-related contractual financial obligations.
- **Short-term sovereign credit rating**– it is based on the same philosophy as the long-term Sovereign rating. In contradiction, a short-term rating presents an opinion for the possibility that the rated sovereign/municipality fails to meet its liabilities, within the short term (up to 12 months).
- **Long-term Credit rating of pension-insurance companies** - The assessment of the rating of a pension-insurance company consists of analyses made in the following directions: legal framework of the pension insurance, appraisal of the investment activity, financial analysis (with respect to liquidity, in the first place) and analysis of the quality of management.
- **Short-term Credit rating of pension-insurance companies** - It is based on the same philosophy as the long-term Credit rating of pension-insurance companies. In contradiction, a short-term rating reflects the possibility of serving the short-term/current liabilities (up to 12 months).

- **Long-term Credit rating of pension fund** - the rating of Pension Fund assesses the management, operating practices and yield of the investment portfolios of the fund.
- **Long-term Credit rating of a guarantee fund** - The rating of Guarantee fund assesses the sovereign risk, the level of development of the region and the guarantee industry. It includes assessment of the status of each fund, the ability to repay the guaranties, the mission and the goals as well.
- **Short-term Credit rating of a guarantee fund** - It reflects the ability of the fund to repay the guaranties in a period of twelve months.

13. BCRA 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:

- **Global long-term rating scale.** The specification of this rating scale is described in Figure 3 of Appendix 1.
- **Global short-term rating scale.** The specification of this rating scale is described in Figure 4 of Appendix 1.
- **Pension-insurance company long-term scale.** The specification of this rating scale is described in Figure 5 of Appendix 1.
- **Pension-insurance company short-term scale.** The specification of this rating scale is described in Figure 6 of Appendix 1.
- **Pension fund long-term scale.** The specification of this rating scale is described in Figure 7 of Appendix 1.
- **Guarantee fund long-term scale.** The specification of this rating scale is described in Figure 8 of Appendix 1.
- **Guarantee fund short-term scale.** The specification of this rating scale is described in Figure 9 of Appendix 1.

14. 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 Implementing Regulation.

15. The mapping of the global short-term rating scale is explained in Section 5 and it has been indirectly derived from the mapping of the global long-term rating scale and the internal relationship established by BCRA between these two scales, as specified in Article 13 of the Implementing Regulation. This internal relationship is shown in Figure 10 of Appendix 1.

16. The indirect mapping approach described in the previous paragraph has also been applied in the case of the other rating scales, as explained in Section 6. In these cases, however, the

relationship with the long-term rating scale (or short-term rating scale) has been assessed, for the purpose of the mapping, by the JC based on the comparison of the meaning and relative position of the rating categories.

4. Mapping of BCRA's global long-term rating scale

17. The mapping of the Bank 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 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 the number of credit ratings cannot be considered to be sufficient.

19. In a second stage, the qualitative factors proposed in Article 7 of the Implementing Regulation have been considered to challenge the result of the previous stage, especially in those ratings categories where less default data has been available.

4.1. Initial mapping based on the quantitative factors

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

20. The number of credit ratings for all rating categories of the BCRA global long-term rating scale cannot be considered to be sufficient for the calculation of the short and long run default rates specified in the Articles 3 – 5 of the Implementing Regulation. Therefore the calculation of the long run default rate has been made in accordance with Article 6 of the Implementing Regulation, as shown in Figure 13 of Appendix 3.

21. The long run default rate benchmark associated with the equivalent category in the international rating scale is a key qualitative factor that has been used for the mapping proposal.

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

23. Withdrawn ratings have been weighted by 50% as indicated in Article 4(3) of the Implementing Regulation.

24. The default definition applied by BCRA, described in Appendix 2, has been used for the calculation of default rates.

4.1.2. Mapping proposal based on the long run default rate

25. As illustrated in the second column of Figure 14 in Appendix 4, the assignment of the rating categories to the credit quality steps has been initially made in accordance with Article 6 of the

Implementing Regulation. Therefore, the numbers 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. The result is shown in Figure 13 of Appendix 3.

- 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.
- C: since the CQS associated with the equivalent rating category of the international rating scale is 6, the proposed mapping for this rating category is also CQS 6.

4.2. Final mapping after review of the qualitative factors

26. 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 BCRA’s Global long-term credit rating scale.

27. BCRA has not registered any change in the quantitative factors with respect to the mapping published in May 2019. No amendments are proposed based on qualitative considerations.

5. Mapping of BCRA’s short-term rating scales

28. BCRA also produces short-term ratings and assigns them to the global short-term credit rating scale (see Figure 4 in Appendix 1). Given that the default information referred to these rating categories cannot be comparable with the 3-year time horizon that characterizes the benchmarks established in the Implementing Regulation, the internal relationship established by BCRA between these rating scales (described in Figure 10 of Appendix 1) has been used to derive the mapping of all short-term rating scales. This should ensure the consistency of the mappings proposed for BCRA.

29. More specifically, as each short term rating can be associated with a range of long-term ratings, the CQS assigned to the Bank, Corporate, Municipality and Issue short-term rating category has been determined based on the most frequent CQS assigned to the related Bank, Corporate, Municipality and Issue long-term rating categories, respectively. In case of draw, the most conservative CQS has been considered. If the most frequent step is identified as CQS 5 or 6, CQS 4 is allocated, as the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR. Given that BCRA belongs to the set of ECAs that are provided two mappings for the Long-term scales, the Short-term scales has been also derived for the two applicable time periods on the basis of former scales mappings.

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 of the Implementing Regulation.

30. The results for the **Global short-term credit rating scale** is shown in Figure 15 of Appendix 4.

- A-1+. This rating category indicates excellent capability for timely meeting of the financial liabilities. It is internally mapped to long-term categories AAA to A+, which are mapped to CQS 1 and CQS 2. Therefore, CQS 1 is the proposed mapping.
- A-1. This rating category indicates high capability for timely meeting of the financial liabilities and weak vulnerability to unfavorable changes in the environment. It is internally mapped to long-term categories A+ to A-, which are mapped to CQS 2. Therefore, CQS 2 is the proposed mapping.
- A-2. This rating category indicates relatively high capability for timely meeting of the financial liabilities and vulnerability to changes in the environment. It is internally mapped to the long-term category A- to BBB, which are mapped to CQS 2 and CQS 3. Therefore, CQS 3 is the proposed mapping.
- A-3. This rating category indicates a fair capability for timely meeting of the financial liabilities and vulnerability to changes in the environment. It is internally mapped to long-term categories BBB to BBB-, which are mapped to CQS 3. Therefore, CQS 3 is the proposed mapping.
- B. This rating category indicates a satisfactory capability for timely meeting of the financial liabilities and strong influence of the unfavorable changes in the environment. It is internally mapped to long-term categories BB+ to BB-, which are mapped to CQS 4. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed for the B rating category is CQS 4.
- C. This rating category indicates low capability for redeeming of the financial liabilities and high dependence on unfavorable changes in the environment. It is internally mapped to long-term categories B+ to C-, which are mapped to CQS 5 and 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 for the C rating category is CQS 4.
- D. This rating category indicates that the Company is in insolvency or liquidation and it does not meet its financial liabilities, which is consistent with the meaning and relative position representative of CQS 6. In addition, it is internally mapped to long-term category D, which is mapped to CQS 6. Since the risk weights assigned to CQS 4 to 6 are equal to 150% according to Article 131 CRR, the mapping proposed for the D/SD rating category is CQS 4.

6. Mapping of other BCRA credit rating scales

31. As mentioned in Section 3, BCRA produces a number of additional credit ratings that are assigned to different credit rating scales.

32. Based on the methodology described in the previous section, the mapping of each rating scale has been derived from the relationship established by the JC with the relevant global long-term or short-term ratings scale. Specifically, as each rating can be associated with one or a range of long-term (or short-term) rating categories, its CQS has been determined based on the most frequent CQS assigned to the related rating categories. In case of draw, the most conservative CQS has been considered. Results are shown in Figures 19 to 21 of Appendix 4:

- **Pension-insurance company long-term scale** (see Figure 4 in Appendix 1). The rating categories can be considered comparable to those of the Long-term issuer ratings scale. Therefore the mapping of each rating category has been derived from its meaning and relative position and the mapping of the corresponding categories of the Long-term issuer rating scale. The result of the mapping of this scale is shown in Figure 19 of Appendix 4.
- **Pension-insurance company short-term scale** (see Figure 7 in Appendix 1). The rating categories can be considered comparable to those of the Short-term issuer ratings scale. Therefore the mapping of each rating category has been derived by the JC from its meaning and relative position and the mapping of the corresponding categories of the Short-term issuer rating scale. The result of the mapping of this scale is shown in Figure 20 of Appendix 4.
- **Pension fund long-term scale** (see Figure 5 in Appendix 1). The rating categories can be considered comparable to those of the Long-term issuer credit rating scale. Even though the definitions of the rating categories refer to insurance companies, the mapping was derived from the meaning and relative position of the rating categories and the mapping of the corresponding categories of the Long-term issuer rating scale. The result of the mapping of this scale is shown in Figure 21 of Appendix 4.
- **Guarantee fund long-term scale** (see Figure 4 in Appendix 1). The rating categories can be considered comparable to those of the Long-term issuer ratings scale. Therefore the mapping of each rating category has been derived from its meaning and relative position and the mapping of the corresponding categories of the Long-term issuer rating scale. The result of the mapping of this scale is shown in Figure 21 of Appendix 4.
- **Guarantee fund short-term scale** (see Figure 7 in Appendix 1). The rating categories can be considered comparable to those of the Short-term issuer ratings scale. Therefore the mapping of each rating category has been derived by the JC from its meaning and relative position and the mapping of the corresponding categories of the Short-term issuer rating scale. The result of the mapping of this scale is shown in Figure 22 of Appendix 4.

Appendix 1: Credit ratings and rating scales

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

SA exposure classes	Name of credit rating	Credit rating scale
Long-term ratings		
Central governments / Central banks	Long-term sovereign credit rating	Global long-term rating scale
Regional governments/ local authorities	Long-term sovereign credit rating	Global long-term rating scale
	Long-term issue credit rating	Global long-term rating scale
Institutions	Long-term bank financial strength rating	Global long-term rating scale
	Long-term leasing companies credit ratings	Global long-term rating scale
	Long-term bank deposit ratings	Global long-term rating scale
	Claims paying ability rating of insurance companies	Global long-term rating scale
Corporates	Long-term corporate credit rating	Global long-term rating scale
	Long-term group of corporate units (holdings) credit rating	Global long-term rating scale
	Long-term issue credit rating	Global long-term rating scale
	Long-term credit rating of pension-insurance companies	Long-term credit rating of pension-insurance companies
	Long-term Credit rating of pension fund	Long-term credit rating of pension fund

SA exposure classes	Name of credit rating	Credit rating scale
	Long-term Credit rating of a guarantee fund	Long-term credit rating of a guarantee fund
Short-term ratings		
Institutions	Short-term bank financial strength rating	Global short-term rating scale
	Short-term leasing companies credit rating	Global short -term rating scale
	Short-term bank deposit ratings	Global short -term rating scale
	Short-term issue credit rating	Global short -term rating scale
Corporates	Short-term corporate credit rating	Global short -term rating scale
	Short-term group of corporate units (holdings) credit rating	Global short -term rating scale
	Short-term issue credit rating	Global short -term rating scale
	Short-term credit rating of pension-insurance companies	Short-term credit rating of pension-insurance companies
	Short-term Credit rating of a guarantee fund	Short-term credit rating of a guarantee fund

Source: BCRA

Figure 3: Global long-term credit rating scale

Credit assessment	Meaning of the credit assessment
AAA	Extremely high capability for servicing debt-related financial obligations in a timely manner. Substantial financial stability. Excellent prospects for development. Exclusively low credit risk.
AA	Very high capability for servicing debt-related financial obligations in a timely manner. Substantial financial stability. Very low credit risk.
A	High capability for servicing the debt-related financial obligations in a timely manner. Low vulnerability to unfavourable changes in the political or economic environment. Financial stability. Low credit risk.
BBB	Fair capability for servicing the debt-related financial obligations in a timely manner. Fair financial condition. Moderate vulnerability to unfavourable changes in the political or economic environment. Moderate credit risk.
BB	The ability to service debt-related financial obligations is to a large extent influenced by the unfavourable changes in the political or economic environment. The financial condition is relatively fair. Substantial credit risk.
B	High level of insecurity with regards to the financial stability and capability for paying off the debt-related financial obligations. High vulnerability to unfavourable changes in the political or economic environment. Relatively high credit risk.
CCC	Unfavourable changes in the political or economic environment may bring to a considerable deterioration of creditworthiness and a failure to fulfil the debt-related financial obligations. Weaknesses in the financial condition. High credit risk.
CC	A high risk of going into default exists. Low capability for paying off the debt-related financial obligations. Substantial problems in the financial condition.
C	Very high risk for going into default exists. Substantial danger of failure to fulfil the debt-related financial obligations and significant dependence on favourable changes in the political environment. Very weak financial condition.
D	Incapability to pay a debt-related financial obligation in a timely manner according to BCRA's definition for default.

Source: BCRA

Figure 4: Global short-term credit rating scale

Credit assessment	Meaning of the credit assessment
A-1+	Considerable financial stability and excellent capability for timely and full payment of debt-related financial obligations to a great extent regardless of the changes in the political or economic environment.
A-1	Financial stability. Weak or inconsiderable vulnerability to the changes in the political or economic environment.
A-2	Good financial condition. Certain vulnerability exists to unfavourable changes in the political or economic environment.
A-3	Good financial condition. Moderate vulnerability to unfavourable changes in the political or economic environment.
B	Relatively fair financial condition and presence of certain risk of untimely and incomplete payment of the debt-related financial obligation. High vulnerability to unfavourable changes in the political or economic environment.
C	Substantial problems in the financial condition. Presence of dependence on favourable changes in the political or economic environment in order to avoid untimely or incomplete payment of debt-related financial obligations.
D	Incapability to pay off a debt-related financial obligation in a timely manner according to BCRA's definition for default.

Source: BCRA

Figure 5 Pension-insurance company long-term scale

Credit assessment	Meaning of the credit assessment
AAA	Exclusively high capability for timely meeting the liabilities. Substantial financial stability. Excellent prospects for development. Exclusively low credit risk.
AA	Very high capability for timely meeting of the liabilities. Substantial financial stability. Very low credit risk.
A	High capability for timely meeting of the liabilities. Weak vulnerability to unfavorable changes in the business or economic environment. Financial stability. Low credit risk.
BBB	Fair capability for timely meeting the liabilities. Fair financial state. Vulnerability to unfavorable changes in the business or economic environment. Moderate credit risk.
BB	The meeting of the liabilities is to a large extent influenced by the unfavorable changes in the business or economic environment. The financial state is relatively fair. Unsteady trend of development. There exists credit risk.
B	High extent of insecurity relating to the financial stability and capability for redeeming the liabilities. Strong vulnerability to unfavorable changes in the business or economic environment. High credit risk.
CCC	Unfavorable changes in the business or economic environment may bring to a considerable deterioration of the state of the Company, and further lead to incapability for redeeming of the liabilities. Weaknesses in the financial state. Considerable credit risk.
CC	There exists considerable risk of going into insolvency. Substantial problems in the financial state.
C	Very high risk of going into insolvency. Very weak financial state.
D	The Company is insolvent and/or is in a procedure of being stated in insolvency.

Source: BCRA

Figure 6 Pension-insurance company short-term scale

Credit assessment	Meaning of the credit assessment
A-1+	The highest short-term rating. Excellent capability for timely meeting the liabilities. Very low credit risk.
A-1	High capability of timely meeting the liabilities. Weak vulnerability to unfavorable changes in the environment. Low credit risk.
A-2	Relatively high capability for timely meeting of the liabilities. Vulnerability to changes in the environment. Relatively low credit risk.
A-3	Fair capability of timely meeting the liabilities. Vulnerability to changes in the environment. Moderate credit risk.
B	Satisfactory capability of meeting the liabilities, and strong influence of the unfavorable changes in the environment. Relatively high credit risk.
C	Low capability for redeeming the liabilities and high dependence on the unfavorable changes in the environment. Substantial problems in the financial state. Risk of going into insolvency.
D	The Company is insolvent and/or is in a procedure of being stated in insolvency.

Source: BCRA

Figure 7: Pension fund long-term scale

Credit assessment	Meaning of the credit assessment
AAA pf	Excellent management and operating practices. Excellent investment policy and investment portfolio.
AA pf	Very fair management and operating practices. Very fair investment policy and investment portfolio.
A pf	Fair management and operating practices. Fair investment policy and investment portfolio.
BBB pf	Satisfactory management and operating practices. Satisfactory investment policy and investment portfolio.
BB pf	Unsatisfactory management and operating practices. Unsatisfactory investment policy and investment portfolio.
B pf	Weak management and operating practices. Weak investment policy and investment portfolio.
C pf	High-risk management and operating practices. Weak investment policy and investment portfolio.

Source: BCRA

Figure 8: Guarantee fund long-term scale

Credit assessment	Meaning of the credit assessment
AAA	Exclusive financial stability. Excellent results of the management work, extremely favorable operating environment. Exclusively fair position on a comparative basis. Excellent results to the set aims in the mission.
AA	Very fair financial stability. Very good management and operating environment. Very fair position on a comparative basis. Very fair results compared to the set aims in the mission.
A	Fair financial stability. Fair position on a comparative basis. Fair results compared to the set aims in the mission.
BBB	Adequate financial stability. Stable position on a comparative basis. Relatively fair results compared to the set aims in the mission.
BB	Moderate financial stability, existence of one or several problem aspects. Adequate results compared to the set aims in the mission.
B	Inadequate financial stability, existence of many problem aspects. Inadequate results compared to the set aims in the mission.
C	Existence of very serious problems of the fund. The Fund avails of limited opportunities to recover. Condition not contributing to achieve the aims.
D	Inability of the Fund to meet its obligations or such state is pending, unless the Bank receives external aid.

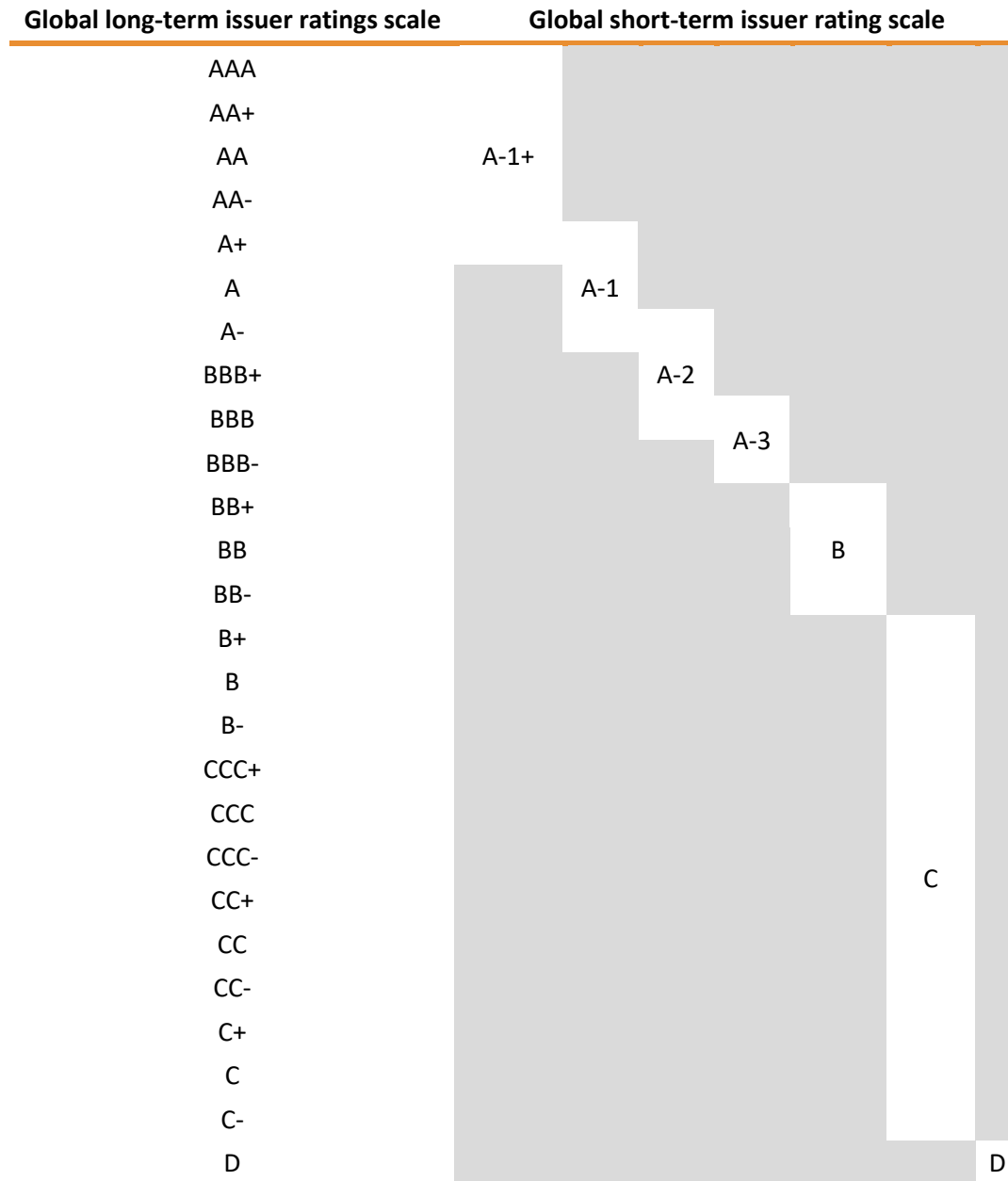
Source: BCRA

Figure 9: Guarantee fund short-term scale

Credit assessment	Meaning of the credit assessment
A-1+	The highest rating for a Fund. Very fair financial stability. Very fair position on a comparative basis.
A-1	Fair financial stability. Fair position on a comparative basis..
A-2	Relatively fair financial stability. Relatively fair position on a comparative basis.
A-3	Adequate financial stability. Stable position on a comparative basis.
B	Existence of problem aspects.
C	Existence of very serious problems.
D	Inability of the Fund to meet its obligations or such state is pending, unless the Fund receives external aid.

Source: BCRA

Figure 10: Internal relationship between BCRA’s global long-term and global short-term credit rating scales



Source: BCRA

Appendix 2: Definition of default

BCRA uses the following definitions of default:

According to BCRA, „Default” is a given obligation or a group of obligations that exists with the setting in of one of the following three events according to the creditability:

1. Opened production due to bankruptcy or some other change in the condition of the debtor (according to the definitions, laid down in the according laws and regulations), or the forcing of administrative measures, which could prevent of the on-time execution of the duty/duties;
2. Every restructuring of a duty that leads to disadvantageous conditions for the creditors like: lower interest rate, longer maturity including other changes, which lead to raised risk or a financial loss of the creditors;

For obligations with a repayment schedule:

A miss or a delay of a payment of principle or/and interest (coupon) over the verge of essence, including the cases, when the obligation is partly performed. An exception from this rule is being accepted in case the obligation is disputable from the side of the debtor.

The verge of essence:

- For an amount – 10% from the current due instalment;
- For a period – 90 days after the date of payment. For credit cards – the days for delay begin from the date after the date for paying the past demanded sum.

For duties without a bankruptcy plan (overdraft, revolving credit lines):

- The debtor has violated the contractual limit;
- The bank has decreased contractual limit until a size, lower than the absorbed amount from the debtor;
- The debtor has cashed a sum without authorization (approval) from the bank.

The verge of essence:

- For an amount – according to 1. – 10 % from the current due instalment; according to 2. – 10% from the contractual limit;
- For a period – 90 days after the determined date of payment.

The comparison of BCRA default definition with the benchmark default definition stated in paragraph 4 of article 4 of the ITS allows to conclude that they are similar.

Appendix 3: Default rates of each rating category

Figure 2: Number of weighted items⁸

	AA	A	BBB	BB	B	CCC-C
01JAN2005	.	1	.	.	.	.
01JUL2005	.	1	.	.	.	.
01JAN2006	.	1	.	.	.	.
01JUL2006	.	1	.	1	.	.
01JAN2007	.	1	1	2.5	.	.
01JUL2007	.	1	1	3.5	.	.
01JAN2008	.	2	3	1	.	.
01JUL2008	.	2	3	1.5	.	.
01JAN2009	.	2	4.5	2.5	.	.
01JUL2009	.	2	5.5	2.5	.	.
01JAN2010	.	3	3.5	3.5	.	.
01JUL2010	.	3	3.5	3.5	.	.
01JAN2011	.	3	5.5	2	.	.
01JUL2011	.	2	7.5	2	.	.
01JAN2012	.	2	6	2	1	.
01JUL2012	1	2	7	1.5	1	.
01JAN2013	0.5	1	4.5	1.5	0.5	.
01JUL2013	0.5	1	3	2	3	.
01JAN2014	0.5	1	3	3	1.5	0.5
01JUL2014	0.5	1	3	2.5	1.5	0.5
01JAN2015	0.5	1	3	3	1.5	.
01JUL2015	0.5	1.5	3	3	1	.
01JAN2016	0.5	1	3.5	2	1	.
01JUL2016	0.5	1	3.5	2	1	.
01JAN2017	0.5	0.5	4	2.5	1.5	.
01JUL2017	.	.	4	3.5	2	.
01JAN2018	.	.	4	3.5	2	.
01JUL2018	.	.	5	4	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 12: Number of defaulted rated items

	AA	A	BBB	BB	B	CCC-C
01JAN2005	.	0	.	.	.	.
01JUL2005	.	0	.	.	.	.
01JAN2006	.	0	.	.	.	.
01JUL2006	.	0	.	0	.	.
01JAN2007	.	0	0	0	.	.
01JUL2007	.	0	0	0	.	.
01JAN2008	.	0	0	0	.	.
01JUL2008	.	0	0	0	.	.
01JAN2009	.	0	0	0	.	.
01JUL2009	.	0	0	0	.	.
01JAN2010	.	0	0	0	.	.
01JUL2010	.	0	0	0	.	.
01JAN2011	.	0	0	0	.	.
01JUL2011	.	0	0	0	.	.
01JAN2012	.	0	0	0	0	.
01JUL2012	0	0	1	0	0	.
01JAN2013	0	0	1	0	0	.
01JUL2013	0	0	0	1	0	.
01JAN2014	0	0	0	1	0	0
01JUL2014	0	0	0	0	0	0
01JAN2015	0	0	0	0	0	.
01JUL2015	0	0	0	0	0	.
01JAN2016	0	0	0	0	0	.
01JUL2016	0	0	0	0	0	.
01JAN2017	0	0	0	0	0	.
01JUL2017	.	.	0	0	0	.
01JAN2018	.	.	0	0	0	.
01JUL2018	.	.	0	0	0	.

Source: Joint Committee calculations based on CEREP data

Figure 13: Mapping proposal for categories with a non-sufficient number of credit ratings

Most recent data cohort	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	2	2	0
Minimum N. rated items	0	0	0	21	0
Observed N. rated items	4.5	13.5	43.5	22.5	12
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 14: Mapping of BCRA'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	
AA	1	n.a.	1	
A	2	n.a.	2	
BBB	3	n.a.	3	
BB	4	n.a.	4	The quantitative factors are representative of the final CQS.
B	5	n.a.	5	
CCC	6	n.a.	6	
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.

Figure 15: Mapping of BCRA's global short-term rating scale

Credit assessment	Corresponding Corporate long-term rating scale assessment	Range of CQS of corresponding Corporate long-term rating scale	Final review based on qualitative factors (CQS)	Main reason for the mapping
A-1+	AAA – A+	1 - 2	1	
A-1	A+ – A-	2	2	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category.
A-2	A- – BBB	2 - 3	3	
A-3	BBB – BBB-	3	3	
B	BB+ – BB-	4	4	The final CQS has been determined based on the range of steps 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	B+ - C	5 - 6	4	
D	D	6	4	

Figure 16: Mapping of BCRA's Pension-insurance company long-term scale

Credit assessment	Corresponding Long-term rating scale assessment (assessed by JC)	Range of CQS of corresponding Long-term ratings scale	Final review based on qualitative factors (CQS)	Main reason for the mapping
AAA	AAA	1	1	
AA	AA	1	1	
A	A	2	2	
BBB	BBB	3	3	
BB	BB	4	4	
B	B	5	5	The final CQS has been determined based on the most frequent step associated with the corresponding long-term issuer rating category.
CCC	CCC	6	6	
CC	CC	6	6	
C	C	6	6	
D	D	6	6	

Figure 17: Mapping of BCRA’s Pension-insurance company short-term scale

Credit assessment	Corresponding Short-term issuer rating scale (assessed by JC)	Range of CQS of corresponding Short-term issuer rating scale	Final review based on qualitative factors (CQS)	Main reason for the mapping
A-1+	A-1+	1	1	
A-1	A-1	2	2	
A-2	A-2	3	3	
A-3	A-3	3	3	The final CQS has been determined based on the most frequent step associated with the corresponding short-term issuer rating category.
B	B	4	4	
C	C	4	4	
D	D	4	4	

Figure 18: Mapping of BCRA's Pension fund long-term scale

Credit assessment	Corresponding Long-term rating scale assessment (assessed by JC)	Range of CQS of corresponding Long-term ratings scale	Final review based on qualitative factors (CQS)	Main reason for the mapping
AAA pf	AAA	1	1	
AA pf	AA	1	1	
A pf	A	2	2	
BBB pf	BBB	3	3	The final CQS has been determined based on the most frequent step associated with the corresponding long-term issuer rating category.
BB pf	BB	4	4	
B pf	B	5	5	
C pf	C	6	6	

Figure 19: Mapping of BCRA's Guarantee fund long-term scale

Credit assessment	Corresponding Long-term rating scale assessment (assessed by JC)	Range of CQS of corresponding Long-term ratings scale	Final review based on qualitative factors (CQS)	Main reason for the mapping
AAA	AAA	1	1	The final CQS has been determined based on the most frequent step associated with the corresponding long-term issuer rating category.
AA	AA	1	1	
A	A	2	2	
BBB	BBB	3	3	
BB	BB	4	4	
B	B	5	5	
C	C	6	6	
D	D	6	6	

Figure 20: Mapping of BCRA's Guarantee fund short-term scale

Credit assessment	Corresponding Short-term issuer rating scale (assessed by JC)	Range of CQS of corresponding Short-term issuer rating scale	Final review based on qualitative factors (CQS)	Main reason for the mapping
A-1+	A-1+	1	1	
A-1	A-1	2	2	
A-2	A-2	3	3	
A-3	A-3	3	3	The final CQS has been determined based on the most frequent step associated with the corresponding short-term issuer rating category.
B	B	4	4	
C	C	4	4	
D	D	4	4	