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Mapping of INC Rating Sp. z o.o.'s credit assessments under the Standardised Approach

1. Executive summary

1. This report describes the exercise carried out by the Joint Committee (JC) to determine the 'mapping'¹ of the credit assessments of INC Rating Sp. z o.o. (INC Rating).
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) of CRR.
3. 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 INC Rating with those of other ECAIs. This mapping should however be interpreted as the correspondence of the rating categories of INC Rating 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.
4. 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 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

¹ According to Article 136(1), the 'mapping' is the correspondence between the credit assessments of an 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.

becomes necessary to reflect additional quantitative information collected after the entry into force of the revised draft ITS.

5. The resulting mapping has 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 long-term issuer credit rating scale of INC Rating.

Figure 1: Mapping of INC Rating's long-term issuer 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

2. Introduction

6. This report describes the exercise carried out by the JC to determine the ‘mapping’ of the credit assessments of INC Rating.
7. INC Rating is a credit rating agency that registered with ESMA on 27 October 2015 and therefore meets the conditions to be an eligible ECAI³.
8. The methodology applied to produce the mapping remains as specified in the Implementing Regulation, which employs a combination of the provisions laid down in Article 136(2) of the CRR, including quantitative and qualitative factors. The quantitative information reflects the statistics on the rating activity and performance of ECAIs established by ESMA in its Central Repository of credit rating data (CEREP)^{4, 5}. The qualitative information was collected bilaterally from INC Rating.
9. The following sections describe the rationale underlying the mapping exercise carried out by the JC to determine the mapping. 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 rating scale of INC Rating for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of INC Rating’s long-term issuer credit rating scale. The mapping table is shown in Appendix 2 of this document.

3. INC Rating credit ratings and rating scales

10. INC Rating produces the international issuer credit rating shown in Column 2 of Figure 2 in Appendix 1. This rating may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)⁶.
11. INC Rating assigns credit ratings to regional governments or local governments. The assigned rating represents an evaluation of the creditworthiness of a debtor, predicting the debtor's ability to pay back the debt and forecasting the likelihood of the debtor's default based on international conditions.
12. INC Rating assigns the international issuer credit rating to the long-term issuer credit rating scale, as illustrated in column 3 of Figure 2 in Appendix 1. The rating scale is described in Figure 3 of Appendix 1.

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

⁴ These statistics are computed from individual rating information provided by registered or certified Credit Rating Agencies to ESMA, as required as per Article 11(2) of the CRA Regulation. <http://cerrep.esma.europa.eu/cerep-web/>

⁵ The last reporting period for which data are available in CEREP is the second semester of 2015.

⁶ Article 4(1) CRA allows the use of the credit assessments for regulatory purposes as long as they meet the definition of credit rating as per Article 3(1)(a) of the CRA Regulation.

13. A specific mapping has been produced for the long-term issuer credit rating scale, as explained in Section 4, which has been derived in accordance with the quantitative factors, qualitative factors and benchmarks specified in the Implementing Regulation.

4. Mapping of INC Rating's long-term issuer credit rating scale

14. The mapping of the long-term issuer credit rating scale consisted of two different stages, where quantitative and qualitative factors were considered.

15. In the first stage, the quantitative factors referred to in Article 1 of the Implementing Regulation were taken into consideration to differentiate between the levels of risk of each rating category.

16. In a second stage, the qualitative factors proposed in Article 7 of the Implementing Regulation have been considered to challenge the 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 rate

17. According to Article 2 of the Implementing Regulation the items used for the calculation of the quantitative factors shall belong to corporate ratings. As INC Rating does not issue corporate ratings, the long-run default rate cannot be calculated based on the default behavior of the items rated by INC Rating.

18. In this case the qualitative factors acquire fundamental importance for the production of the mapping, as the default behavior cannot be tested based on quantitative factors.

4.2. Final mapping after review of the qualitative factors

19. The qualitative factors specified in Article 7 of the Implementing Regulation have been used to produce the mapping for this ECAI.

4.2.1. External Benchmarks

20. CEREP did not reflect information regarding the credit ratings issued by INC Ratings.

21. The **estimate of the long-run default rate** provided by the ECAI has been compared with the long-run benchmark established in Article 14(a) of the Implementing Regulation, yielding the following mapping: rating categories AAA/AA, BBB, BB, B, CCC/CC/C are assigned to CQS 1, CQS 2, CQS 3, CQS 4, CQS 5 and CQS 6, respectively. Rating category "D" is not analysed as it already reflects a default situation.

4.2.2. Other qualitative factors.

22. The **definition of default** applied by INC Rating is not used for the calculation of the quantitative factors. Therefore it is not relevant for the analysis and no specific adjustment is proposed to the mapping based on this factor.
23. The mapping proposal complies with the qualitative criteria on the **meaning and relative position** of a rating category, as specified in Article 10 of the Implementing Regulation.
24. Regarding the **time horizon**, INC Rating's methodology focuses on the long-term (10 years). However, the stability of the three-year horizon cannot be assessed given the lack of data. No adjustment is proposed based on this factor.

Appendix 1: Credit ratings and rating scales

Figure 2: Relevant credit rating and rating scale

SA exposure class	Name of credit rating	Credit rating scale
Long-term rating		
Regional governments or local authorities	International issuer credit rating	Long-term issuer credit rating scale

Source: INC Rating

Figure 3: Long-term issuer credit rating scale

Credit assessment	Meaning of the credit assessment
AAA	Highest Credit Quality. AAA ratings denote the lowest level of risk
AA	Very High Credit Quality. AA ratings denote expectations of very low level of risk
A	High Credit Quality. A ratings denote expectations of low level of risk
BBB	Moderate Credit Quality. BBB ratings denote expectations of moderate level of risk
BB	Speculative. BB ratings denote expectations of increased level of risk
B	Highly speculative. B ratings denote expectations of high level of risk
CCC	Significant risk. CCC ratings denote very high level of risk
CC	Extremely speculative. CC ratings denote very high level of risk
C	In bankruptcy with little chance for recovery. C ratings denote the highest level of risk
D	In bankruptcy. D ratings denote the total lack of ability to pay the liabilities

Source: INC Rating

Appendix 4: Mappings of each rating scale

Figure 4: Mapping of INC's long-term issuer credit rating scale

Credit assessment	Initial mapping based on quantitative factors (CQS)	Final review based on qualitative factors (CQS)	Main reason for the mapping
AAA	n.a.	1	The internal estimate of the long-run default rate, meaning and relative position of the rating category is representative of the final CQS
AA	n.a.	1	The internal estimate of the long-run default rate, meaning and relative position of the rating category is representative of the final CQS
A	n.a.	2	The internal estimate of the long-run default rate, meaning and relative position of the rating category is representative of the final CQS
BBB	n.a.	3	The internal estimate of the long-run default rate, meaning and relative position of the rating category is representative of the final CQS
BB	n.a.	4	The internal estimate of the long-run default rate, meaning and relative position of the rating category is representative of the final CQS
B	n.a.	5	The internal estimate of the long-run default rate, meaning and relative position of the rating category is representative of the final CQS
CCC	n.a.	6	The internal estimate of the long-run default rate, meaning and relative position of the rating category is representative of the final CQS
CC	n.a.	6	The meaning and relative position of the rating category is representative of the final CQS
C	n.a.	6	The meaning and relative position of the rating category is representative of the final CQS
D	n.a.	6	The meaning and relative position of the rating category is representative of the final CQS