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Granada, November, 10th 2010

Consultation paper (CP43) on CEBS's advice to the European Commission on the non-eligibility of entities producing only credit scores for ECAI recognition.

We would like to thank CEBS for the opportunity to participate in the amendment process of Directive 2006/48/EC in regards to those elements that refer to the eligibility of ECAI.

Axesor is a Spanish limited company whose primary activity involves issuing unsolicited credit ratings on Spanish SMEs. For this purpose axesor uses, as part of the credit rating process, what are commonly referred to as scoring tools. It is precisely on the legislative proposal for ratings issued with the help of credit scoring that we want to state our position in this letter.

First of all, we think that the appropriate solution to resolve the regulatory issue set out in paragraph 8 *"(...)This leads to an unlevel playing field between CRAs and entities producing only credit scores and a lack of transparency for both supervisors and the market"*, would be the creation of a legislative and supervisory framework that specifically addresses the requirements that must be met by issuers that use credit scoring to rate companies and are s interested in gaining recognition as an ECAI.

In any case, we consider it puzzling to point to the lack of legislation on credit scorings as a basis to ban its use in the Regulatory Capital calculation. This is especially confusing as in the Basel II framework we can find elements with important and direct influence in the Regulatory Capital calculation that are regulated and supervised at a very basic level. As an example we can find in Spain the property appraisals that are used in regulatory calculations of mortgages, arguably one of the most important asset classes in financial institutions.

In reference with reasons laid out in paragraph 9 *"(...) from a prudential perspective, the credit scores produced by entities that only summarize and express 'data according to a pre-set statistical system or model alone without any additional substantial rating specific analytical input from a rating analyst in the assessment process", should not be used for capital requirement purposes (...)"*, we consider that the focus is erroneously placed on the methodology used, assuming as a starting point a greater value to expert analysis involving an analyst versus other methodologies like credit scorings.

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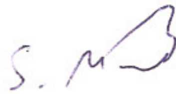
We share with regulators the need to guarantee the prudent management of credit risk, but we believe that there exist methodologies within credit scoring that when applied to specific portfolios could provide much better performance in terms of predictive power than traditional credit rating methodologies, which on the other hand tend to react in a much slower fashion to systemic and/or idiosyncratic changes.

Credit scoring tools are the only efficient way to rate SME portfolios that are characterized by a huge number of companies, making it impractical to rate them by more traditional means. For example, in Spain there are more than 80.000 companies with a bank debt exposure higher than € 1 million. These figures make it impractical to rate these companies using traditional rating methodologies. Credit Scoring not only bring greater efficiency to the analysis but also provide advantages over traditional ratings in terms of objectivity and independence. From a criteria based on the principle of conservatism, and fair regulatory treatment as it is stated in the CP43, we find a contradiction in the regulatory support of credit scoring tools used by banks for capital purposes under IRB methodologies, and limiting the use of these tools by ECAI´s as the principles for the development of these tools are very similar.

Summarizing, we consider that there are alternatives to banning external credit scores for capital purposes. In this regard, we support a specific supervisory framework for the industry, with a special focus on the accuracy and predictive power of the credit scoring models. This would serve to improve risk management at those financial entities utilizing the Standard approach in this asset class (SME) that is the main driver of the European economy.

Cordially yours



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