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## Final report

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Draft implementing technical standards amending Implementing Regulation (EU) 2016/1799 on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013



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# 1. Executive summary

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In line with Article 136 (1) of the Capital Requirements Regulation (CRR), the Joint Committee (JC) of the European Supervisory Authorities (ESAs) has previously provided a correspondence (mapping) between relevant credit assessments of external credit assessment institutions (ECAIs) and credit quality steps (CQS), as set out in Section 2 of Chapter 2 of Title II of Part Three of the CRR, to be used for the determination of capital requirements. The original implementing technical standards (ITS) were adopted on 7 October 2016 by the European Commission as Implementing Regulation (EU) 2016/1799 (the Implementing Regulation)<sup>1</sup>. This Implementing Regulation was subsequently amended on 24 April 2018 to incorporate mappings for the five new ECAIs that had been registered or certified after the ESAs had submitted the original draft ITS to the European Commission<sup>2</sup>, thereby providing, in total, mappings for 30<sup>3</sup> ECAIs.

The JC of the ESAs is required to monitor the existing mappings and has therefore analysed whether the mapping of existing ECAIs remains appropriate. The review has identified that the existing Implementing Regulation must be amended, as a result of i) changes in the existing mappings due to an updated assessment of the risk, in line with the EBA methodology, or ii) the need to introduce mappings for new credit rating types subsequently introduced by existing ECAIs. This final report presents changes to i) the amendments due to the re-allocation of the CQS (Creditreform Rating AG and European Rating Agency a.s.) and ii) the amendments due to changes in credit rating scales/types (AM Best Europe-Rating Services, BCRA-Credit Rating Agency AD, Capital Intelligence Ratings Ltd, Creditreform Rating AG, CRIF Ratings S.r.l., DBRS Ratings, Fitch Ratings Limited, Moody's Investors Service, Spread Research, S&P Global Ratings).

At the time the monitoring exercise was launched, all the existing ECAIs had already been assigned a mapping. Subsequently, credit rating agencies (CRAs) related to previously mapped ECAIs were registered in the EU-27, in accordance with the CRA Regulation. The ESAs agreed to address their mappings, as the scope and methodologies for the credit assessments of those newly registered entities remained the same.

<sup>1</sup> Implementing Regulation (EU) 2016/1799 of 7 October 2016 (OJ L 275, 12.10.2016, p. 3-18):

[http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2016.275.01.0003.01.ENG&toc=OJ:L:2016:275:TOC](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.275.01.0003.01.ENG&toc=OJ:L:2016:275:TOC)

<sup>2</sup> The amended Implementing Regulation, Commission Implementing Regulation (EU) 2018/634, was published in the Official Journal of the European Union on 24 April 2018. The amended Implementing Regulation also removes the reference to the one ECAI that the European Securities and Markets Authority (ESMA) withdrew from the CRA Registration in March 2017: [https://www.esma.europa.eu/sites/default/files/library/esma71-99-376\\_feri\\_eurorating\\_services\\_credit\\_rating\\_agency\\_registration\\_withdrawn.pdf](https://www.esma.europa.eu/sites/default/files/library/esma71-99-376_feri_eurorating_services_credit_rating_agency_registration_withdrawn.pdf)

<sup>3</sup> The 30 ECAIs referenced here represent the 30 that are present in the Commission Implementing Regulation (EU) 2018/634 (OJ L 105, 25.4.2018, p. 14-20): [http://data.europa.eu/eli/reg\\_impl/2018/634/oj](http://data.europa.eu/eli/reg_impl/2018/634/oj)

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## 2. Background and rationale

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### The nature of ITS under EU law

The revised draft ITS are produced in accordance with Article 15 of Regulation (EU) No 1093/2010 (EBA Regulation)<sup>4</sup>, Article 15 of Regulation (EU) No 1094/2010 (EIOPA Regulation)<sup>5</sup> and Article 15 of Regulation (EU) No 1095/2010 (ESMA Regulation)<sup>6</sup>.

### Background to the revised draft ITS

#### Use of external credit assessments in the CRR/CRD IV

Article 113(1) of the CRR allows the use of external credit assessments of ECAIs to determine the credit quality that will be used to set the corresponding risk weight under the Standardised Approach. This provision is equivalent to the provisions of the Basel II framework and represents a significant enhancement in the risk-sensitivity and prudential soundness of the credit risk rules.

The draft ITS are especially relevant for institutions in which credit risk is less material, which is typically the case for less sophisticated institutions, for insignificant exposure classes or in situations in which using internal approaches would be overly burdensome.

#### ECAIs and relevant external credit assessments

As stated in Article 135(1) of the CRR, external credit assessments can be used only if they have been provided by an ECAI. The draft ITS specify the mappings that should be used for determining the own funds requirements under the Standardised Approach. ECAIs are defined as CRAs registered or certified in accordance with the CRA Regulation or any central bank issuing credit ratings that are exempt from the application of the CRA Regulation.

As set out in Article 136(1) second subparagraph of the CRR, the EBA, the EIOPA and ESMA are required to submit revised draft implementing technical standards where necessary. Furthermore, in line with recital 24 of the Implementing Regulation, which stipulates that compliance with the CRR is required at all times and is therefore necessary for monitoring the performance of the mappings on a continuous basis, the appropriateness of the existing mappings has also been reviewed. The

<sup>4</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

<sup>5</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

<sup>6</sup> Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

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performance of the mappings has been monitored based on the additional quantitative information collected after the Implementing Regulation entered into force and on the qualitative developments registered by the ECAIs. As a result of this monitoring exercise, the Implementing Regulation needs to be amended to reflect developments on credit rating scales and the allocation of credit rating types for those ECAIs that have experienced changes in the quantitative or qualitative factors of their credit assessments, as well as the discontinuation of portfolio credit assessments. Individual amended mapping reports are also published on the EBA website for the following ECAIs:

- amendments due to the re-allocation of CQS — Creditreform Rating AG and European Rating Agency, a.s.;
- amendments due to changes in credit rating scales/types — AM Best Europe-Rating Services, BCRA-Credit Rating Agency AD, Capital Intelligence Ratings Ltd, Creditreform Rating AG, CRIF Ratings S.r.l., DBRS Ratings, Fitch Ratings, Moody's Investors Service, Spread Research and S&P Global Ratings;
- amendments to reflect the registration in the EU-27 of the CRAs related to a previously mapped ECAI, in accordance with the CRA Regulation — AM Best Europe Rating Services, DBRS Ratings, Kroll Bond Rating Agency and Moody's Investors Service.

The revised draft ITS, therefore, contain draft mappings for the ECAI population featured in the Annex to Commission Implementing Regulation (EU) 2018/634 of 24 April 2018, namely amended mappings for the 12 ECAIs mentioned above and unchanged mappings for the other 18 ECAIs.

### Structure of the ITS

The revised draft ITS amend Annex III of the Implementing Regulation to take into account the performance of the mappings and their appropriateness. This is in line with the second subparagraph of Article 136(1) of the CRR, which states that revised draft implementing technical standards must be submitted where necessary.

Together with the revised draft ITS, individual amended mapping reports are also published on the EBA website.

### Next steps

The revised draft ITS will be submitted to the Commission for endorsement, following which they will be published in the Official Journal of the European Union. The revised technical standards will apply from the twentieth day following that of their publication in the Official Journal of the European Union.



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### 3. Draft Implementing Technical Standards amending the Implementing Regulation (EU) 2016/1799 on the mapping of ECAIs' credit assessment under Article 136(1) and (3) of Regulation (EU) No 575/2013

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**COMMISSION IMPLEMENTING REGULATION (EU) No .../... amending  
Implementing Regulation (EU) 2016/1799 as regards the mapping tables specifying the  
correspondence between the credit risk assessments of external credit assessment  
institutions and the credit quality steps set out in Regulation (EU) No 575/2013 of the  
European Parliament and of the Council**

of **XXX**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms<sup>7</sup>, and in particular the first subparagraph of Article 136(1) thereof,

Whereas:

- (1) Commission Implementing Regulation (EU) 2016/1799<sup>8</sup> specifies in its Annex III, the correspondence of the relevant credit assessments issued by an ECAI to the credit quality steps set out in Section 2 of Chapter 2 of Title II of Part Three of Regulation (EU) No 575/2013 ('mapping').
- (2) The second subparagraph of Article 136(1) of Regulation (EU) No 575/2013 requires the updating of the mappings for all ECAIs registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council<sup>9</sup>. Similarly, recital 24 of Regulation (EU) 2016/1799 provides for the monitoring of the performance of the mappings contained therein on a continuous basis and implies the revision of the Regulation, as appropriate, where that monitoring identifies changes in the quantitative and qualitative factors underpinning such credit ratings and, by extension, their mappings. As a result, given that, on the one hand, changes have been effected on the quantitative and qualitative factors of the credit assessments of some of the credit ratings agencies for which mappings were provided by Regulation (EU) 2016/1799, and, on the other hand, other credit rating agencies among those have extended their credit assessments to new market segments, resulting in new rating scales and new credit rating types, that Regulation should be amended to provide updated mappings for all registered or certified ECAIs.
- (3) In addition, an ECAI registered in accordance with Regulation (EU) No 1060/2009 should be mapped in this Regulation in accordance with the first subparagraph of Article 136(1) of Regulation (EU) No 575/2013. It is in this specific case proportionate to provide this mapping on the basis of an abridged assessment given that the scope

<sup>7</sup> OJ L 176, 27.6.2013, p. 1.

<sup>8</sup> Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 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 (OJ L 275, 12.10.2016, p. 3).

<sup>9</sup> Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1).

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and methodology for credit assessments used by this ECAI is the same as in the case of its parent which has been mapped previously as a certified third country ECAI.

- (4) This Regulation is based on the draft implementing technical standards submitted by the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority jointly (the European Supervisory Authorities) to the Commission.
- (5) The European Supervisory Authorities have conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council<sup>10</sup>; the opinion of the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council<sup>11</sup>; and the opinion of the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council<sup>12</sup>.
- (6) Implementing Regulation (EU) 2016/1799 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

*Article 1*  
*Amendment to Regulation (EU) 2016/1799*

Annex III to Implementing Regulation (EU) 2016/1799 is replaced by the text set out in the Annex to this Regulation.

*Article 2*  
*Entry into force*

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

<sup>10</sup> Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

<sup>11</sup> Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

<sup>12</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).



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Done at Brussels,

*For the Commission  
The President*

*Jean-Claude Juncker*



## ANNEX

### ANNEX III

#### Mapping tables for the purposes of Article 16

Credit quality step	1	2	3	4	5	6
<i>AM Best Europe Rating Services</i>						
Long-term issuer credit rating scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, e, f, s
Long-term issue rating scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, s
Financial strength rating scale	A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term issuer rating scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4, d, e, f, s		
Short-term issue rating scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4, d, s		
<i>ARC Ratings S.A.</i>						
Medium- and long-term issuer rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Medium- and long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer rating scale	A-1+	A-1	A-2, A-3	B, C, D		



Short-term issue rating scale	A-1+	A-1	A-2, A-3	B, C, D		
<i>ASSEKURATA Assekuranz Rating-Agentur GmbH</i>						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC/C, D
Short-term corporate rating scale	A++	A	B, C, D			
<i>Axesor SA</i>						
Global rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D, E
<i>Banque de France</i>						
Global long-term issuer credit rating scale	3++	3+, 3	4+	4, 5+	5, 6	7, 8, 9, P
<i>BCRA — Credit Rating Agency AD</i>						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Pension-insurance company long-term scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Pension-insurance company short-term scale	A-1+	A-1	A-2, A-3	B, C, D		
Pension fund long-term scale	AAA pf, AA pf	A pf	BBB pf	BB pf	B pf	C pf
Guarantee fund long-term scale	AAA, AA	A	BBB	BB	B	C, D
Guarantee fund short-term scale	A-1+	A-1	A-2, A-3	B, C, D		



*Capital Intelligence Ratings Ltd*

International long-term issuer rating scale	AAA, AA	A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
International long-term insurer financial strength rating scale	AAA, AA	A	BBB	BB	B	C, RS, SD, D
International short-term issuer rating scale	A1+	A1	A2, A3	B, C, RS, SD, D		
International short-term issue rating scale	A1+	A1	A2, A3	B, C, D		
International short-term insurer financial strength rating scale	A1+	A1	A2, A3	B, C, RS, SD, D		

*Cerved Rating Agency S.p.A.*

Corporate long-term rating scale	A1.1, A1.2, A1.3	A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
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*Creditreform Rating AG*

Long-term issuer rating scale	AAA, AA	A	BBB	BB	B, C, SD, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B, C, D
Short-term rating scale	L1	L2	L3, NEL, D		

*CRIF Ratings S.r.l.*



Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, DIS, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, DS
Short-term issuer rating scale	IG-1		IG-2	SIG-1, SIG-2, SIG-3, SIG-4		
Short-term issue rating scale	IG-1		IG-2	SIG-1, SIG-2, SIG-3, SIG-4		
<i>Dagong Europe Credit Rating</i>						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	A-1		A-2, A-3	B, C, D		
<i>DBRS Ratings</i>						
Long-term obligations rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale	R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		
Financial strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, R
<i>Egan-Jones Ratings Co.</i>						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	A-1+	A-1	A-2	A-3, B, C, D		



<i>Euler Hermes Rating GmbH</i>						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, SD, D
<i>European Rating Agency, a.s.</i>						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term rating scale	S1		S2	S3, S4, NS		
<i>EuroRating Sp. z o.o.</i>						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
<i>Fitch Ratings</i>						
Long-term issuer default rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations — long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Long-term international Insurer Financial Strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Derivative counterparty rating scale	AAA dcr, AA dcr	A dcr	BBB dcr	BB dcr	B dcr	CCC dcr, CC dcr, C dcr
Short-term rating scale	F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS rating scale	F1+	F1	F2, F3	B, C		



<i>GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH</i>						
Global long-term rating scale	AAA, AA		A, BBB	BB	B	CCC, CC, C, D
<i>HR Ratings de México, S.A. de C.V.</i>						
Global long-term rating scale	HR AAA(G)/HR AA(G)	HR A(G)	HR BBB(G)	HR BB(G)	HR B(G)	HR C(G)/HR D(G)
Global short-term rating scale	HR+1(G)/HR1(G)	HR2(G)	HR3(G)	HR4(G), HR5(G), HR D(G)		
<i>ICAP Group S.A</i>						
Global long-term rating scale		AA, A	BB, B	C, D	E, F	G, H
<i>INC Rating Sp. z o.o.</i>						
Long-term issuer credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
<i>Japan Credit Rating Agency Ltd</i>						
Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, LD, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer rating scale	J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit rating scale	J-1+	J-1	J-2	J-3, NJ, D		



<i>Kroll Bond Rating Agency, Kroll Bond Rating Agency Europe</i>						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	K1+	K1	K2, K3	B, C, D		
<i>modeFinance S.r.l.</i>						
Global long-term rating scale	A1, A2	A3	B1	B2	B3	C1, C2, C3, D
<i>Moody's Investors Service</i>						
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Global short-term rating scale	P-1	P-2	P-3	NP		
<i>Rating-Agentur Expert RA GmbH</i>						
International credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D, E
International reliability rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D, E
<i>Scope Ratings AG</i>						
Long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term rating scale	S-1+	S-1	S-2	S-3, S-4		
<i>Spread Research</i>						



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Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term rating scale	SR0		SR1, SR2	SR3, SR4, SR5, SRD		
<i>S&amp;P Global Ratings</i>						
Long-term issuer credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Insurer financial strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, SD/D, R
Mid-Market Evaluation rating scale		MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit rating scale	A-1+	A-1	A-2, A-3	B, C, R, SD/D		
Short-term issue credit rating scale	A-1+	A-1	A-2, A-3	B, C, D		
<i>The Economist Intelligence Unit Ltd</i>						
Sovereign rating band scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D

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## 4. Accompanying documents

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### 4.1 Draft cost-benefit analysis/impact assessment

#### **Procedural issues**

In accordance with the Regulations of the three ESAs, an analysis of costs and benefits is conducted when drafting ITS, unless the analysis is disproportionate in relation to the scope and impact of the draft ITS concerned.

#### **Problem definition**

According to Article 135(1) of the CRR, an external credit assessment may be used to determine the risk weight of an exposure under the Standardised Approach only if it has been issued by an ECAI or has been endorsed by an ECAI, in accordance with the CRA Regulation.

Recital 98 of the CRR advises that the ECAI market should be open to more CRAs, given the dominance of the three undertakings. Accordingly, Article 4(98) of the CRR automatically recognises CRAs registered or certified in accordance with the CRA Regulation as ECAIs. Central banks issuing credit ratings that are exempt from the application of the CRA Regulation are also recognised as ECAIs.

The use of external credit ratings for determining own funds requirements requires a mapping between the credit assessments issued by an ECAI and the CQS of the Standardised Approach set out in Section 2 of Chapter 2 of Title II of Part Three of the CRR.

Mappings should be made available for all existing CRAs registered or certified in accordance with the CRA Regulation and for central banks producing ratings that are not subject to that Regulation.

Recital 24 of Implementing Regulation (EU) 2016/1799 points out that, given the fact that compliance with Regulation (EU) No 575/2013 is required at all times, it is necessary to monitor the performance of the mapping on a continuous basis.



## Objectives

On 7 October 2016, the Commission adopted the Implementing Regulation, laying down ITS with regard to the mapping of credit assessments of ECAIs for credit risk in accordance with Articles 136(1) and 136(3) of the CRR.

The Implementing Regulation provided mapping tables for 26 ECAIs, which covered one central bank and all the CRAs registered or certified in accordance with the CRA Regulation at the time the ESAs started preparing the draft ITS. Since then, ESMA has withdrawn the registration of one CRA, and five additional CRAs have been registered or certified in accordance with the CRA. These changes were reflected in the proposed amendments to the original ITS, which were adopted by the Commission on 24 April 2018<sup>1</sup>.

The JC of the ESAs is required to monitor the existing mappings and has therefore analysed whether the mapping of existing ECAIs remains appropriate. A review has identified that the existing Implementing Regulation must be amended for a number of ECAIs based on the monitoring exercise, as a result of either i) changes in the existing mappings due to an updated assessment of the risk, in line with the EBA methodology, or ii) the need to introduce mappings for new credit rating types subsequently introduced by existing ECAIs. The objective of the present revised draft ITS is to amend the Implementing Regulation to reflect these changes, as outlined in Figure 1. The revised draft ITS will therefore register mappings for the current ECAI population (including for the five newly established ECAIs), with unchanged mappings for all but the ECAIs that saw their mappings reviewed as part of the mapping review exercise.

Figure 1: ECAIs subject to mapping amendments

ECAI	Amendments to:	
	Credit rating scales/types	CQS allocation
AM Best Europe Rating Services	Yes	No
BCRA — Credit Rating Agency AD	Yes	No
Capital Intelligence Ratings Ltd	Yes	No
Creditreform Rating AG	Yes	Downgrade
CRIF Ratings S.r.l.	Yes	No
DBRS Ratings	Yes	No
European Rating Agency, a.s.	No	Upgrade
Fitch Ratings	Yes	No
Moody's Investors Service	Yes	No

<sup>1</sup> The amended Implementing Regulation also removes the reference to the one ECAI that ESMA withdrew from the CRA Registration in March 2017: [https://www.esma.europa.eu/sites/default/files/library/esma71-99-376\\_feri\\_eurorating\\_services\\_credit\\_rating\\_agency\\_registration\\_withdrawn.pdf](https://www.esma.europa.eu/sites/default/files/library/esma71-99-376_feri_eurorating_services_credit_rating_agency_registration_withdrawn.pdf)

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Spread Research	Yes	No
S&P Global Ratings	Yes	No

Notwithstanding the principle stated in the previous paragraph, the G20 conclusions and the Financial Stability Board (FSB) principles for reducing reliance on external credit ratings should also be taken into account. Therefore, although the analysis behind the 'mapping' of each ECAI and its regular monitoring over time should alleviate any mechanistic overreliance of the credit risk rules on external ratings, institutions should be encouraged to use internal ratings rather than external credit ratings, even for the purpose of calculating own funds requirements, as a way to reduce overreliance on external credit ratings.

These ITS will contribute to a common understanding among institutions and the EU's national competent authorities of the methodology that the JC should use to specify the 'mappings'. Given that the mappings of any ECAI will be equally applicable in all EU Member States, these ITS will also contribute to ensuring a high level of harmonisation and consistent practice in this area and to achieving the objectives in the CRR of enhancing the risk sensitivity of the credit risk rules.

#### Technical options considered

The elements that describe the degree of risk expressed by a credit assessment of an ECAI (quantitative and qualitative factors) and the levels of risk that should be used to define each credit quality step ('benchmarks') remain unchanged with respect to the Implementing Regulation, adopted by the Commission in October 2016.

The monitoring triggers are based on the quantitative and qualitative factors specified in the Implementing Regulation. In addition, ECAIs may have extended their credit assessments to new segments and the associated new rating scales and/or new credit rating types will need to be reflected accordingly in the mapping reports. The cut-off date for collecting information for analysis was set as December 2017.

Quantitative factors to calibrate the mapping are drawn from statistics on the rating activity and the rating performance of ECAIs produced by ESMA (central repository, CEREP<sup>2</sup>), based on the information provided by the ECAIs as part of their reporting obligations<sup>3</sup>. The latest CEREP data available covered the period up to reference date December 2015.

Qualitative factors are taken into account to produce the mapping, as per Article 136(2) of the CRR. Furthermore, recital 11 of the Implementing Regulation specifies that both quantitative and qualitative factors should be used to produce a mapping, with the qualitative factors being considered in a second stage, as and when necessary and especially when quantitative factors are not adequate.

<sup>2</sup> <https://cerrep.esma.europa.eu/cerep-web/>

<sup>3</sup> Article 11(2) of the CRA Regulation.

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Following this approach, changes in qualitative factors are assigned lower priority than changes in quantitative factors.

The qualitative factors identified in the Implementing Regulation are:

- the definition of default considered by the ECAI;
- the time horizon of a rating category considered by the ECAI;
- the meaning of a rating category and its relative position within the rating scale;
- the creditworthiness of the items assigned the same rating category;
- the estimate, provided by the ECAI, of the long run default rate;
- the relationship established by the ECAI ('internal mapping'), where available, between the rating category that is being mapped and other rating categories produced by the same ECAI, when a mapping for the latter categories has already been set out;
- any other relevant information that can describe the degree of risk expressed by a rating category.

Moreover, as noted in recital 26 of the Implementing Regulation, in March 2016, the Commission notified the JC of the ESAs of its intention to endorse the draft ITS<sup>4</sup> with amendments, which affected the level of conservatism of the mapping. An Opinion was issued by the ESAs rejecting the amendments proposed by the Commission<sup>5</sup>.

However, as indicated in Recital 27 of the Implementing Regulation, the Commission proceeded to amend the draft ITS in respect of some provisions that relate to smaller/newer ECAIs that entered the market recently. As a result, the Commission did not adopt the more conservative treatment, in cases of limited data, after the end of the phase-in period in 2019. Therefore, the approach of an 'indefinitely extended' phase-in period has also been adopted here.

<sup>4</sup> <http://www.eba.europa.eu/documents/10180/1269185/Final+Draft+ITS+on+ECAIs%27%20Mapping.pdf/3f4b46bb-825e-4211-b199-519b6b3bf865>

<sup>5</sup> [http://www.eba.europa.eu/documents/10180/1359456/ESAs+2016+41+%28Joint+Opinion+on+EC+amend+ITS+ECAIs+Ma](http://www.eba.europa.eu/documents/10180/1359456/ESAs+2016+41+%28Joint+Opinion+on+EC+amend+ITS+ECAIs+Mapping+CRR%29.pdf)  
[pping+CRR%29.pdf](http://www.eba.europa.eu/documents/10180/1359456/ESAs+2016+41+%28Joint+Opinion+on+EC+amend+ITS+ECAIs+Mapping+CRR%29.pdf)

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## Impact of the review of mapping adequacy

### Costs

The mappings, as well as their review of appropriateness, are produced following the methodology adopted by the Commission. The Commission highlights the need to avoid the automatic application of a more conservative mapping to all ECAIs that did not produce sufficient ratings, for the sole reason that they did not produce sufficient ratings, without taking into account the quality of their ratings. Subsequently, qualitative factors were captured via the notifications sent to ESMA by the ECAIs as part of their reporting obligations under the CRA Regulation.

There are potential risks that ECAIs with insufficient ratings could leverage the Commission's amendments and produce credit assessments that are less conservative than the mapping would suggest. Less conservative credit assessments would be associated with lower risk weights under the Standardised Approach, which would result in an underestimation of own funds requirements. Subsequent monitoring of mapping reports should enable the identification of these situations, which would warrant a mapping review.

### Benefits

ECAIs that have extended their credit assessments to new segments will see the associated new rating scales and/or new credit rating types reconsidered. Moreover, ECAIs that have amended, added or removed rating scales will see their mapping reflect these changes. Finally, ECAIs that have issued new credit rating types will see those included in their mapping report.

Overall, these changes will benefit the financial sector by providing it with an accurate and updated picture of the correspondence between credit assessments issued by ECAIs and the CQS of the Standardised Approach, which allows the use of those credit assessments for determining own funds requirements. This increases competition in an industry in which certain ECAIs exercise a significant market power<sup>6</sup>.

The analysis performed to arrive at each individual mapping and its regular monitoring over time should contribute to mitigating any mechanistic overreliance of the credit risk rules on external ratings, although due caution should continue to be exercised. This is one of the objectives of the CRR, derived from the G20 conclusions and the FSB principles for reducing reliance on external credit ratings.

<sup>6</sup> The market share is concentrated in three ECAIs that represent around 90% of the market. The market share calculation is based on 2017 applicable turnover from credit rating activities and ancillary services in the EU. Please refer to: [https://www.esma.europa.eu/sites/default/files/library/esma33-5-209\\_-\\_cra\\_market\\_share\\_calculation\\_2017.pdf](https://www.esma.europa.eu/sites/default/files/library/esma33-5-209_-_cra_market_share_calculation_2017.pdf)

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## 4.2 Feedback on the public consultation

The ESAs publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for 2 months and ended on 31 December 2018. A total of 22 responses were received, of which eight were published.

This paper presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments, and the actions taken to address them if deemed necessary.

In many cases, several industry bodies made similar comments, or the same body repeated its comments in its responses to different questions. In such cases, the comments and the ESAs' analysis are included in the section of this paper that the ESAs consider most appropriate.

Changes to the draft ITS have been incorporated as a result of the responses received during the public consultation.

### Summary of key issues

The main point raised during the consultation period concerns the **methodology**, in relation to **smaller ECAIs**. Some respondents raised concerns that the methodology applied to smaller ECAIs is not proportionate with respect to larger ECAIs, and that the amended draft ITS do not follow the methodology endorsed by Commission Implementing Regulation (EU) 2016/1799, in which relaxed quantitative criteria were introduced for smaller ECAIs, with a view to balancing prudential concerns with market concerns.

As noted in the Consultation Paper, the methodology applied in this proposed amendment to the draft ITS remains unchanged with respect to Commission Implementing Regulation (EU) 2016/1799 and accordingly, for smaller ECAIs, relaxed quantitative criteria have been applied to the additional quantitative information collected since the original regulation entered into force.

It is recalled that Commission Implementing Regulation (EU) 2016/1799 sets out the methodology to derive the mappings by specifying the elements to characterise the degree of risk expressed by a credit assessment of an ECAI (quantitative and qualitative factors) and the levels of risk that should be used to characterise each credit quality step (benchmarks). In addition, to enhance transparency, the ESAs publish mapping reports, illustrating how the methodology is applied to derive the mapping.



## Summary of responses to the consultation and the ESAs' analysis

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
<b>General comments</b>			
	<p>One response raised concerns about the fees charged by CRAs group entities, which are deemed excessive, noting that their licensing models are not transparent.</p>	<p>ESMA is producing work to improve the transparency of activities of data providers related to CRAs, as acknowledged by the submitter.</p> <p>This proposed amendment to the draft ITS also increases competition in the market by allowing ECAIs that extended their credit rating scales to new segments to be reflected in the mapping, provided that the available information at the cut-off time for analysis (end of 2017) warrants their inclusion.</p> <p>More generally, the CRR (Regulation (EU) No 575/2013) encourages the entry of more CRAs into the market by automatically recognising those CRAs registered or certified in accordance with the CRA Regulation (Regulation (EC) No 1060/2009) as per Article 4(98) as ECAIs.</p>	
	<p>A submitter recommended that Legal Entity Identifiers be used for identifying legal entities in the context of determining credit quality and risk determination under the Standardised Approach and in external credit assessments.</p>	<p>Legal Entity Identifiers can be found on the list of CRAs registered or certified in accordance with Regulation (EC) No 1060/2009 on the ESMA website.</p>	



**Responses to questions in Consultation Paper EBA/CP/2018/41**

**Question 1. Do you agree with the proposed revised draft Implementing Technical Standards?**

<p>A number of submitters claimed that smaller ECAIs are at disadvantage compared with ECAIs with a larger pool of credit ratings.</p>	<p>As noted in the Consultation Paper, the methodology applied in this proposed amendment to the draft ITS remains unchanged with respect to Commission Implementing Regulation (EU) 2016/1799, which included a provision to introduce relaxed quantitative criteria for smaller ECAIs with a view to balancing prudential with market concerns.</p> <p>Accordingly, smaller ECAIs benefit from relaxed quantitative criteria, noting that the analysis is now also based on the additional information collected since the original regulation entered into force.</p>	<p>No change.</p>
<p>A number of respondents noted that defaults for a given ECAI concentrate in a specific sector in which i) a large number of these defaults are related to extraordinary circumstances; and ii) the share of that sector in total issuance has markedly decreased.</p>	<p>ECAIs are responsible for performing due diligence; procedures should be reviewed to ensure adequate mechanisms are in place to address future incidents.</p> <p>Although the share of that sector may have recently decreased, the business model remains unchanged.</p>	<p>No change.</p>
<p>A number of submissions claimed that the way in which the methodology is applied to derive the mapping is not disclosed.</p>	<p>The methodology applied in these proposed amendments to the draft ITS remains unchanged with respect to Commission Implementing Regulation (EU) 2016/179, in which the methodology to derive the mapping is set out by specifying the elements to characterise the degree of risk expressed by a credit assessment of an ECAI (quantitative and qualitative factors) and the levels of risk that should be used to characterise each credit quality step (benchmarks).</p>	<p>No change.</p>



Responses to questions in Consultation Paper EBA/CP/2018/41

	In addition, to enhance transparency, the ESAs publish mapping reports illustrating how the methodology is applied to derive the mapping.	
A number of respondents claimed that the mapping of the main credit rating scale of an ECAI should be broken down into several mappings by sector.	<p>Mappings are produced at the credit rating scale level, with the applicable rating types listed in the mapping reports. This is consistently applied across ECAIs to ensure fairness and to prevent arbitrage that could result from the ex-post segmentation of those credit ratings in which defaults were registered.</p> <p>Whenever distinct credit rating scales are tailored to specific credit rating types (e.g. an ECAI develops a distinct credit rating scale to assess a given segment, with different credit rating categories and meanings from the main credit rating scale), a separate mapping is produced accordingly.</p>	No change.
One response noted that the existing short-term rating scale and issue scale for a given ECAI should be mapped.	The information provided on the issue and short-term rating scales has been incorporated and mapped accordingly.	Changed.
A number of respondents noted that the quantitative information behind the mappings seems to refer to data up to 2013.	<p>Commission Implementing Regulation (EU) 2016/179 notes that the calculation of the default rate should be measured over a 3-year time horizon. As the methodology remains unchanged, the 3-year time horizon is respected and therefore the analysis tables display data up to 2013H1, which covers a time horizon up to 2015H2.</p> <p>Commission Implementing Regulation (EU) 2016/1799 describes, in Article 2, the items used for the calculation of the quantitative factors, in which reference is made to Delegated Regulation (EU) 2015/2 on the information that CRAs make available to ESMA. To limit the reporting burden on ECAIs, quantitative information is sourced from the CEREP database compiled by ESMA, which contained credit rating assessment information up to 2015H2 at the cut-off date of analysis (end 2017). This represents seven additional observations with respect to the analysis performed for Commission Implementing Regulation (EU) 2016/1799. Reviewing the mappings based on the additional quantitative and</p>	No change.



Responses to questions in Consultation Paper EBA/CP/2018/41

	<p>qualitative information available at the time of analysis has enabled this proposed draft ITS to monitor the quantitative performance and to extend the mappings for new segments introduced by the ECAIs since the Implementing Regulation entered into force.</p>	
<p>One respondent claimed that qualitative factors have not been taken into consideration for a specific ECAI.</p>	<p>Qualitative factors were taken into consideration, as indicated in Article 7 of the Implementing Regulation, based on the information bilaterally collected from the ECAI, as noted in the mapping report illustrating the application of the methodology.</p>	<p>No change.</p>
<p>One respondent provided information on the qualitative factor 'any other relevant information that can describe the degree of risk expressed by a rating category', namely a benchmark of its credit assessments against assessments of other CRAs. It claimed that these risk assessments are consistent with their target probability of default and therefore no CQS should be changed.</p>	<p>ECAIs are welcome to provide qualitative information on any other relevant information that can describe the degree of risk expressed by a rating category.</p> <p>Qualitative factors can be used to convey additional information with respect to the default behaviour captured in the quantitative analysis, subject to the relevance, objectivity and reliability of the information.</p> <p>The information provided refers to a subset of credit assessments benchmarked against the credit assessments of other ECAIs. This limited sample does not convey information across all the segments covered by the CRA, particularly those where underperformance was identified in the quantitative factors.</p> <p>Therefore, a review of the initial quantitative mapping is not warranted.</p>	<p>No change.</p>
<p>One submission stated that credit scores should be used as a quantitative factor.</p>	<p>Credit scores fall outside the scope of Regulation (EC) No 1060/2009 of the European Parliament and of the Council on credit rating agencies and cannot be considered credit assessments for the purposes of the quantitative analysis. This issue was thoroughly discussed in the context of the Consultation Paper on the original draft ITS on ECAIs mapping (JC 2015 67), in which it was concluded that credit scores should be considered a qualitative factor and not a quantitative factor, in that they do not reflect the true default behaviour of the rated items.</p>	<p>No change.</p>



**Responses to questions in Consultation Paper EBA/CP/2018/41**

	<p>Given that the methodology of this second amendment to the draft ITS on ECAIs mapping remains unchanged with respect to Commission Implementing Regulation (EU) 2016/1799, credit scores should be considered not a quantitative factor but a qualitative factor.</p>	
<p>One respondent noted that credit scores should be used as additional information to the mapping and provided related information for an ECAI.</p>	<p>Credit scores may be used as a qualitative factor according to the methodology; see Article 11(2): 'Different measures of creditworthiness assigned to items of the same rating category may be used, to the extent appropriate, to complement the information provided by the quantitative factors referred to in Article 1 where they are reliable and relevant for the mapping.'</p> <p>Therefore, credit score information can be considered a qualitative factor should the ECAI wish to provide this information. In the case of the ECAI in question, the information on credit scores provided during the consultation period has been taken into consideration. When balanced with other qualitative factors listed in the methodology, which point to a conservative approach, and considering that quantitative factors take precedence over qualitative factors, the mapping assessment remains the same.</p>	<p>No change.</p>
<p>One respondent claimed that the CP takes into account only a specific type of credit rating.</p>	<p>The proposed amendment to the draft ITS does not restrict the mapping to a single credit rating type, but it takes into account all the credit rating types issued through a given credit rating scale.</p>	<p>No change.</p>
<p>One ECAI disagreed with producing short-term mappings based on the internal correspondence established by ECAIs on the short-term and long-term scales, as other factors such as liquidity should be taken into account.</p>	<p>Commission Implementing Regulation (EU) 2016/179 specifies in Article 7(f) and Article 13 that the internal mapping produced by an ECAI should be used to establish CQS.</p> <p>For robustness, the JC of the ESAs has also taken into consideration the additional liquidity and credit outlook dimensions provided by the ECAI; the analysis remains unchanged.</p>	<p>No change.</p>