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**FINANCE  
DENMARK**

To

ESMA, EBA and EIOPA (uploaded via consultation form on EBA website),

## Mapping of credit assessments of ECAs

Finance Denmark<sup>1</sup> appreciates the possibility to provide input to the ESA's Draft implementing technical standards amending Implementing Regulation (EU) 2016/1799 on the mapping of ECAs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013 issued January 29, 2021. We appreciate the effort made to extend the mappings in the proposal.

The evolution of rating methodologies over time has resulted in a more complex set of ratings. The draft mapping of ratings largely addresses these changes but there are a few important additional factors that could ideally be explored and incorporated in the framework to give even more granularity and precision in the assessment.

In its covered bond methodology Moody's relies on its Counterparty Risk Assessment (CRA) as a key building block and as a differentiator for swap counterparties. This is a default assessment and differs from Moody's general rating definition, including Moody counterparty rating definition, which defines a rating by ultimate loss and not only probability of default. Since ratings today have become very much exposure specific, they do not uniformly map to the same Credit Quality Step and if relevant rating concepts are not mapped this may lead to unwanted side effects. A CRA is typically two notches higher than the senior debt rating and this could then mean that these ratings would fall into different Credit Quality Step classes, which in turn may have important consequences for covered bond ratings where derivatives are included in the cover pool. Being able to clearly reference the most accurate measure when mapping exposures to Credit Quality Steps would assist markets in functioning better, particularly under stressed conditions.

Similar to Moody's, S&P uses its Reference Rating Level (RRL) in its covered bond rating methodology. This is the rating that determine if a counterpart may be eligible in an internal swap transaction. In external derivative contracts the relevant rating is the Resolution Counterparty Rating, which is mapped in the draft technical standard. As in the case of Moody's CRA the RRL would assist issuers and investors alike in classifying exposures correctly and a complete mapping would also facilitate the dialogue with regulatory authorities as well as related reporting.

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<sup>1</sup> EU Transparency Register – registration number 20705158207-35.

By comparison Fitch Ratings have chosen to include all its rating concepts in the mapping to the Credit Quality Step grid, which in our view serve to eliminate any potential uncertainty related to the mapping of ratings and assessments to Credit Quality Steps 1 to 6.

Finance Denmark therefore would like to see the draft mapping document or the framework amended such that the two abovementioned assessments are taken into account.

Best regards,

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