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Draft ITS 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

Public Hearing, 7 June 2023

Public Hearing Outline



- Background
 - Mandate
 - Milestones (previously published ITS and 3 amendments)
- Revised draft ITS
 - De-registrations and renaming
 - Monitoring
- Proposed amendments
- Mapping under SII
- Next steps
- Q&A

Background: CRR mandate



CRR Article 136

Mapping of ECAI's credit assessments

1. EBA, EIOPA and ESMA shall, through the Joint Committee, develop draft implementing technical standards to specify for all ECAIs, with which of the credit quality steps set out in Section 2 the relevant credit assessments of the ECAI correspond ('mapping'). Those determinations shall be objective and consistent.

Context: under the SA risk weights should be based on the exposure class to which the exposure is assigned and, if applicable, on its credit quality determined by reference to the credit assessments of ECAIs.

Stylised example: corporate exposure for which credit assessment "A" is available by nominated ECAI "Y".



Credit quality step	Risk weight
1	20%
2	50%
3	100%
4	100%
5	150%
6	150%

CRR

- Chapter 2: SA
- Section 2 on risk weights
- Article 122 on corporates

Background: Milestones: original draft ITS



- Based on the draft ITS submitted by the JC of the ESAs, the Commission adopted on 7 October 2016 Implementing Regulation 2016/1799 specifying mappings for 26 ECAIs and a methodology with relaxed quantitative criteria for smaller ECAIs.

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

Background: Milestones: First amendment



- JC ESAs mandated to specify mappings “for all ECAIs”, defined in CRR article 4(1) as

(98) External credit assessment institution or “ECAI” means a credit rating agency that is registered or certified in accordance with regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009.

- First ITS amendment adopted in April 2018 to account for **newly registered ECAIs** and de-registration of an agency. Mapping methodology unchanged.

Additional ECAIs
Egan-Jones Ratings Co.
HR Ratings de México, S.A. de C.V.
INC Rating Sp. z o.o.
modeFinance S.r.l.
Rating-Agentur Expert RA GmbH

Background: Milestones: Second amendment



Second ITS amendment adopted in November 2019 to reflect:

1. Registration of **additional ECAIs** in the EU
2. A **monitoring** exercise on mapping adequacy following the same methodology as adopted in 2016
 - Updated **risk assessment** based on additional information collected:
 - Re-allocation of CQS for two ECAIs
 - Reflection of **10 new rating scales** developed by existing ECAIs

Background: Milestones: Third amendment



Third ITS amendment adopted in November 2021 to reflect:

1. De-registration of a number of ECAIs, registration of **two additional ECAIs** in the EU and reflection of name change of a registered entity.
2. A **monitoring** exercise on mapping adequacy following the same methodology as adopted in 2016
 - Updated **risk assessment** based on additional information collected:
 - Re-allocation of CQS for two ECAIs
 - Reflection of **9 new rating scales** developed by existing ECAIs and changes related to the denomination of the rating categories (i.e. symbols) for one ECAI.

Public Hearing Outline

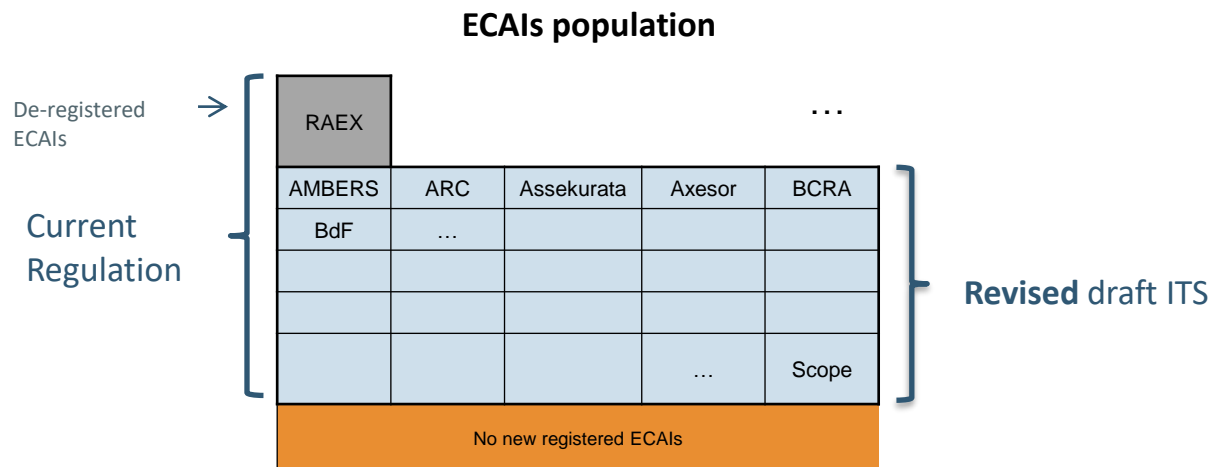


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Proposal fourth amendment



- Draft ITS amendment to reflect:
 - Remove references to **de-registered or de-certified** ECAIs and reflection of name changes of registered entities.
 - **Monitor** existing mappings remain adequate



Proposal fourth amendment: De-registration and renaming



- One ECAI **de-registered**:
 - Rating-Agentur Expert RA GmbH

- **Renaming** two registered ECAIs:
 - Axesor Risk Management S.L. renamed to EthiFinance Ratings S.L.
 - ICAP S.A. renamed to ICAP CRIF S.A.

Proposal fourth amendment: Monitoring framework



- Framework based on **objective** criteria:
 - Quantitative: CEREP and RADAR
 - Qualitative: notifications received by supervisor

- Objective: existing mappings remain **up-to-date**:
 - Prudential concerns: **risk assessment** aligned with CQS allocation
 - ▶ Additional quantitative information
 - ▶ Monitoring changes qualitative factors (e.g. default definition, time horizon)
 - **Stock-taking** current rating products

- Monitoring exercise based on same methodology as applied in previous exercises and as adopted in 2016

Proposal fourth amendment: Monitoring output



Amendment **ITS Annex III** on mapping tables to reflect:

- **Re-allocation of CQS** for four ECAIs:
 - ▶ Nordic Credit Rating AS upgrade for rating category N1, N2, N3 (new categories N5 and N6; discontinued category N1+)
 - ▶ EthiFinance ratings S.L. downgrade for rating category EF1
 - ▶ ICAP CRIF S.A upgrade for rating category A and downgrade for rating categories B and CC
 - ▶ Creditreform Ratings AG upgrade for rating category BBB, BB and L3
- Mappings for changes to **7 credit rating scales** developed by existing ECAIs
 - ▶ ARC Ratings S.A., Banque de France, Bulgarian Credit Rating Agency (BCRA), EthiFinance ratings S.L., Kroll Bond Ratings Agency, Qivalio SAS and Scope Ratings GmbH.

Proposal fourth amendment: Monitoring – mapping reports



As per previous practice **mapping reports** will continue to be published to enhance transparency

- Provide:
 - Info on relevant SA exposure classes and credit rating types
 - Illustration application methodology
- Amended Mapping reports for the following ECAIs:
 - **New rating scales to be mapped:** ARC Ratings S.A., Banque de France, Bulgarian Credit Rating Agency (BCRA), EthiFinance ratings S.L., Kroll Bond Ratings Agency, Qivalio SAS and Scope Ratings GmbH.
 - **New CQS allocation:** Nordic Credit Rating AS, EthiFinance ratings S.L., ICAP CRIF S.A and Creditreform.
 - **New segments or changes to qualitative factors:** EthiFinance Ratings S.L., Fitch Ratings Ireland Limited, GBB- Rating Gesellschaft fuer Bonitaetsbeurteilung and Scope Ratings GmbH.

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Mapping under Solvency II



- **Mandate** to JC ESAs under Directive 2009/138/EC (Solvency II)

Article 109a

Harmonised technical inputs to standard formula

1. For the purposes of the calculation of the Solvency Capital Requirement in accordance with the standard formula, the ESAs through the Joint Committee shall develop draft implementing technical standards on the allocation of credit assessments of external credit assessment institutions (ECAIs) to an objective scale of credit quality steps applying the steps specified in accordance with Article 111(1)(n).

- Solvency II requires **consistency** on the use of ECAI ratings with the banking regulation for the calculation of capital requirements
 - The allocation is produced following the mapping for the banking regulation => applied *mutatis mutandis*

Mapping under Solvency II – Proposal fourth amendment



- **Re-allocation of credit quality steps:**
 - Nordic Credit Rating AS, EthiFinance ratings S.L., ICAP CRIF S.A, Creditreform Ratings AG
- **Changes in credit rating scales:**
 - ARC Ratings S.A., Banque de France, Bulgarian Credit Rating Agency (BCRA), EthiFinance ratings S.L., Kroll Bond Ratings Agency, Qivalio SAS and Scope Ratings GmbH
- **Methodological alignment:**
 - A.M. Best (EU) Rating Services B.V., CRIF Ratings S.r.l, DBRS Ratings GmbH, Fitch Ratings Ireland Limited
 - ▶ For those rating scales where the allocation to CQS 1 to 6 is derived based on the internal relationship with another rating scale (being typically a long-term issuer rating scale), that approach was also followed for the allocation to CQS 0. The allocation was then determined based on the most frequent CQS assigned to the related long-term issuer rating categories. In case of draw, the more conservative CQS was considered.
- **Correction of an inconsistency** between the mappings for Solvency II and CRR that was introduced in the last update of the ITSs (Creditreform Rating AG).

Next Steps



Date	Milestone
25 May 2023	Publication Consultation Paper
26 June 2023	Closure Consultation Period
Target: 2023	Review Comments in response to the Consultation Paper and preparation final revised draft ITS Approval process final revised draft ITS by internal committees and governing bodies of the ESAs and the ESAs Joint Committee Submission revised draft ITS to the Commission

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