EBA/CP/2015/08

7 May 2015

Consultation Paper

Draft Implementing Technical Standards

On the mapping of ECAIs' credit assessments for securitisation positions under Article 270 of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

Contents

1. Responding to this Consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 7 August 2015. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

Regulation (EU) No 575/2013 (Capital Requirements Regulation—CRR) establishes that risk weights under the Standardised Approach and Internal Ratings Based approach for securitisation positions should be based, if applicable, on the credit quality of those positions determined by reference to the credit assessments (hereafter also referred to as *credit ratings*) of External Credit Assessment Institutions (ECAIs). As per Article 270 of the CRR, these draft ITS specify the correspondence ('mapping') between credit ratings and credit quality steps that shall determine the allocation of appropriate risk weights to ECAIs' credit ratings issued on securitisations.

The 'mapping' should be provided for all ECAIs, defined according to Article 4(1)(98) of the CRR. This includes any credit rating agency or a central bank issuing credit ratings that are exempt from the application of Regulation (EC) No 1060/2009 (Regulation on Credit Rating Agencies—CRA). This 'automatic' recognition process represents a substantial modification of the process applicable under the Directives 2006/48/EC and 2006/49/EC. In the specific case of credit ratings issued on securitisations[1], the CRA provides that ECAIs establish and use rating categories that are clearly differentiated from the rating categories used for any other instruments and entities, given the specific nature of these instruments relative to corporate ratings. In addition, the CRR allows the use of ECAIs' ratings for the purpose of calculating capital requirements applicable to securitisation positions only if the ECAIs have published procedures, methodologies, assumptions, and the key elements underpinning their assessments. On this basis, this regulation provides mapping tables of credit ratings to credit quality steps for those ECAIs that have such methodologies in place as well as differentiated rating scales aimed at issuing securitisation ratings.

These ITS enable the credit ratings of newer ECAIs, those not included in the scope of the mapping of securitisation ratings proposed by the Committee of European Banking Supervisors (CEBS) in 2006[2] (and reviewed in 2010) and then adopted by Member States, to be used for the purposes of calculating institutions' capital requirements, by providing mapping tables for these ECAIs.

The mappings proposed for the four existing ECAIs reflect the mappings that had been assigned to these ECAIs in accordance with the 2006 (and reviewed in 2010) CEBS mappings. Such choice is motivated by impact analysis as well as qualitative considerations and supervisory judgement. Whereas the EBA has considered laying down a securitisation-specific systematic mapping methodology, as it is the case for the ECAI mapping proposed for the purpose of Article 136 CRR, fully based on securitisation ratings' historical performance, the following elements have been considered to support the proposed qualitative approach to the mappings:

1 Article 3(1)(l) of the CRA Regulation defines structured finance instruments with reference to Article 4(36) of Directive 2006/48/EC, now replaced by Article 4(61) of CRR, and hence with reference to 'securitisations' as defined therein.

2 Guidelines on the recognition of External Credit Assessment Institutions – CEBS (2006).

- Available data on ratings' historical performance is strongly driven by the crisis performance of very specific securitisation sub-asset classes, in terms of type of underlying collateral and geographical location, thus undermining an objective and consistent comparative analysis;

- Available data on ratings' historical performance is not sufficiently representative of current ratings' credit quality, mostly due to changes in rating methodologies undertaken since the financial crisis struck the securitisation market, particularly in the most affected sub-asset classes and, also, due to a wide regulatory intervention on the securitisation market since then;

- A disproportionate impact, in terms of regulatory capital costs of holding outstanding securitisation positions, would result from worsening the currently applicable mappings as a consequence of benchmarking available ratings' historical performance against any reasonable securitisation-specific set of benchmark default rates. Such capital cost impact would most likely overlap with the capital costs already borne as a consequence of tighter rating grade methodologies and/or rating downgrades implemented by ECAIs since the crisis.

- A review of the regulatory framework for capital requirements is under way, which is expected to enter into force in the coming years. Given this review, maintaining the current framework appears justified in the short-term. However, in the medium-term the mapping should be based on a quantitative mapping methodology that takes into account the quantitative evidence.

The mappings proposed for the newer ECAIs, for which sufficient data on ratings' historical performance is not available, are aligned to those proposed for the incumbent ECAIs.

The EBA considers that a degree of regulatory conservatism would be justified for these ECAIs due to the lack of sufficient historical evidence on their ratings' credit quality. However, considering that the mapping assigned to those ECAIs that have large availability of data on historical performance (the incumbent ECAIs) was not based on a consistent and objective mapping methodology for the reasons listed above, applying a degree of regulatory conservatism on newer ECAIs on the grounds of lack of data availability does not appear a commensurate policy choice.

The EBA will, in the absence of a systematic mapping methodology fully based on securitisation ratings' historical performance and on a securitisation-specific default benchmark, regularly monitor the appropriateness of the assigned mappings on the basis of ratings information reported in the ESMA CEREP dataset.

Independently from the mentioned monitoring and potential reviews, the mappings proposed in this regulation will have to be reviewed, at the latest, before the new Basel Securitisation Framework comes into force in January 2018. The EBA will at that point re-consider the need for a quantitative based mapping approach.

3. Background and rationale

3.1 Background to these draft ITS

3.1.1 Use of external credit assessments in the CRR/CRDIV

1. The CRR allows the use of ECAIs' ratings to determine the credit quality that will be used to set the corresponding risk weight applicable to securitisation positions under the Standardised Approach (see Article 251 of the CRR) and, within the Internal Ratings Based approach, under the Ratings Based Method (RBM) (see Article 259(1)(a) of the CRR).

2. The G-20 conclusions and the FSB principles for reducing reliance on external credit ratings should be taken into account. Therefore, institutions should be encouraged to use internal ratings rather than external credit ratings, even for the purpose of calculating own fund requirements as a way to reduce overreliance on external credit ratings. In this respect the proposed revision to the securitisation framework, published in December 2014 by the Basel Committee on Banking Supervision, explicitly includes reducing mechanistic reliance on external ratings as one of its objectives. The proposed revision in the hierarchy of approaches available for computing capital requirements applicable to securitisations reduces the number of approaches based on external ratings from two (Standardised Approach and Ratings Based Method under Basel II) to only one (External Ratings Based Approach under the revised framework). In addition the proposed revision places the External Ratings Based Approach at the second place in the hierarchy of approaches, favouring the use, where applicable, of the Internal Ratings Based Approach.

3.1.2 Scope of these draft ITS

3. The CRR establishes that the risk weights for the calculation of the own funds requirements 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 External Credit Assessment Institutions (ECAIs). Own funds requirements for securitisation positions, both under the Standardised Approach (SA) and, within the IRB approach, the Ratings Based Method (RBM) (and where applicable under the SA or IRB Approach the Internal Assessment Approach as per Article 259(4) of the CRR), are provided for in the CRR by reference to credit assessments of ECAIs (as per Article 251 and Article 259(1)(a) respectively). As stated in Article 269 of the CRR, external credit assessments can only be used if provided by an External Credit Assessment Institution (ECAI).

4. The 'mapping' should be provided for all ECAIs, defined according to Article 4(1)(98) of the CRR. This includes any credit rating agency or a central bank issuing credit ratings that are exempt from the application of Regulation (EC) No 1060/2009 (Regulation on Credit Rating Agencies—CRA).

5. In the specific case of credit ratings assigned to securitisations, the CRA requires ECAIs to establish and use rating categories that are clearly differentiated from the rating categories used for any other instruments and rated entities (see Article 10(3) of the CRA)[3]. In addition, the CRR allows the use of ECAIs' ratings for the purpose of calculating capital requirements applicable to securitisation positions only if the ECAIs have published procedures, methodologies, assumptions, and the key elements underpinning their assessments. On this basis, this regulation provides mapping tables of credit assessments to credit quality steps for those ECAIs that have such methodologies in place as well as differentiated rating scales aimed at issuing securitisation ratings.

6. These ITS enable the credit ratings of newer ECAIs, those not included in the scope of the mapping of securitisation ratings proposed by the Committee of European Banking Supervisors (CEBS) in 2006[4] (and reviewed in 2010) and then adopted by Member States, to be used for the purposes of calculating institutions' capital requirements, by providing mapping tables for these ECAIs.

7. ECAIs rate several different types of commonly defined structured finance instruments, including instruments that do not qualify as 'securitisations' as defined in the CRR (see Article 4(61)). These draft ITS only cover structured finance instruments that fall under the CRR definition of securitisations. It should also be noted that these draft ITS also cover credit ratings assigned to re-securitisations, as re-securitisation falls within the definition of securitisations under the CRR.

3.1.3 Mandate

8. The CRR mandates the EBA to consider both qualitative and quantitative factors in order to determine the mapping of ECAIs credit assessments to credit quality steps, as described in Article 270:

Article 270

Mapping

EBA shall develop draft implementing technical standards to determine, for all ECAIs, which of the credit quality steps set out in this Chapter are associated with the relevant credit assessments of an ECAI. Those determinations shall be objective and consistent, and carried out in accordance with the following principles:

(a) EBA shall differentiate between the relative degrees of risk expressed by each assessment;

3 The CRA requires ECAIs to use an additional symbol to distinguish rating categories used for structured finance instruments. ECAIs typically add an SF subscript to the rating categories assigned to structured finance instruments.

4 Guidelines on the recognition of External Credit Assessment Institutions – CEBS (2006).

(b) EBA shall consider quantitative factors, such as default and/or loss rates and the historical performance of credit assessments of each ECAI across different asset classes;

(c) EBA shall consider qualitative factors such as the range of transactions assessed by the ECAI, its methodology and the meaning of its credit assessments, in particular whether based on expected loss or first Euro loss, and to timely payment of interest or to ultimate payment of interest;

(d) EBA shall seek to ensure that securitisation positions to which the same risk weight is applied on the basis of the credit assessments of ECAIs are subject to equivalent degrees of credit risk. EBA shall consider amending its determination as to the credit quality step with which a particular credit assessment shall be associated, as appropriate.

3.1.4 General approach to mapping securitisation ratings

9. The EBA gave consideration to laying down a systematic and quantitative mapping methodology based on: i) securitisation ratings' historical default performance; ii) the definition of a securitisation-specific set of benchmark default rates for each and every rating grade; iii) qualitative adjustments needed where insufficient sample size undermines the use of historical evidence for mapping purposes. This approach to mapping ECAIs' securitisation ratings would have mimicked the approach followed by the EBA for the mapping of non-securitisation ratings (as mandated in Article 136 of the CRR) and, therefore, would have promoted consistency of regulatory approaches across regulatory exposure classes.

10. Analysis of the available data on the historical performance of securitisation ratings, as well as informal consultation of the ECAIs that are active in the market of external ratings on securitisations highlighted that:

- available data on ratings' historical performance is strongly driven by the crisis performance of very specific securitisation sub-asset classes, in terms of type of underlying collateral and geographical location, thus undermining an objective and consistent comparative analysis; and

- available data on ratings' historical performance is not sufficiently representative of current ratings' credit quality, mostly due to changes in rating methodologies undertaken since the financial crisis struck the securitisation market, particularly in the most affected sub-asset classes and, also, due to a wide regulatory intervention on various aspect of the securitisation business since then.

11. In addition, the EBA gave consideration to the market impact of benchmarking available historical performance of securitisation ratings against different potential securitisation-specific sets of reference cumulative default rates, for each and every existing rating grade. Due to the fact that, unlike the case of non-securitisation ratings, a global standard on the reference cumulative default rates of different rating grades does not exist, the EBA considered several different proposals, generally resulting in a material worsening (i.e. lower assigned CQSs) of incumbent ECAIs mappings if compared to the regulatory mappings that

currently apply to them. The EBA considered that a disproportionate impact, in terms of regulatory capital costs of holding outstanding securitisation positions, would result from worsening the currently applicable mappings as a consequence of benchmarking available ratings' historical performance against any reasonable securitisation-specific set of benchmark default rates. Such capital cost impact would most likely overlap with the capital costs already borne as a consequence of tighter rating grade methodologies and/or rating downgrades implemented by ECAIs since the crisis. Consequently this approach would result in too high capital requirements relative to the risks currently observed in the securitisation market.

12. The EBA is of the view that while it would be fully warranted to take a fully quantitative approach to the assessment of the incumbent ECAIs historical performance in the securitisation market, due to the poor past performance of their rating practices, such an approach in the current circumstances would mostly result in overly conservative capital requirements for the current securitisation market.

13. In addition, a review of the capital framework for securitisations is expected to change the risk-weighting of securitisation positions: by 2018 jurisdictions are expected to implement the newly published (December 2014) BCBS securitisation framework. In light of this upcoming substantial change of framework, the EBA is of the view that it would not be commensurate to implement, at this stage, further changes in the own funds regulation for securitisations.

14. In order to meet the requirement of making an objective and consistent determination of the mappings, the EBA favoured a more qualitative approach to the mappings that reflects and is based on the work conducted by CEBS on the Guidelines for the recognition of ECAIs in January 2006 (and reviewed in November 2010), at that time covering the mappings of securitisation ratings issued by Standard and Poor's, Moody's Investor Services, Fitch Ratings and DBRS, i.e. the current incumbent ECAIs in the securitisation market. The mapping from 2010 was based on similar considerations and took into account both qualitative and quantitative factors.

3.1.5 Specific considerations on the mapping applicable to more recent ECAIs

15. Those ECAIs that entered in the securitisation market more recently were not in the scope of the regulatory mapping issued by the CEBS in 2006 and adopted, at the national level, by Competent Authorities. A mapping of ratings to CQSs is therefore necessary for the ratings of these ECAIs to be used for regulatory purposes according to the CRR (e.g. risk weighting calculation).

16. One significant difference between the incumbent ECAIs and the relatively more recent ECAIs is the availability of data on the performance of their securitisation ratings'. The securitisation market is characterised by a very limited track record for ECAIs other than the four incumbent ones. ECAIs that were not active in the securitisation market when the CEBS mapping was elaborated, have currently set up securitisation-specific methodologies and rating scales, as requested by CRA and CRR provisions, however they have rated only very few transactions, if any, during the period that followed the financial crisis.

17. In the absence of a systematic mapping methodology, fully based on securitisation ratings' historical performance and on a securitisation-specific default benchmark, the treatment envisaged for more recent ECAIs should in the view of the EBA incorporate a degree of conservatism reflecting the lack of data on the historical performance of these rating agencies, in line with the mapping proposed under Article 136 CRR. However, given the choice of mapping the securitisation ratings of incumbent ECAIs without relying on a systematic mapping methodology, fully based on securitisation ratings' historical performance and on a securitisation-specific default benchmark, the mappings proposed for more recent ECAIs are aligned with those allocated to incumbent ECAIs.

3.1.6 Long-term vs. short-term ratings / SA vs. IRB ratings

18. Where applicable, short-term securitisation ratings were mapped to the corresponding CQS, for each ECAI in the scope of these ITS, by ensuring consistency across used rating grades.

19. The mapping of securitisation ratings to the 12 Credit Quality Steps of the Ratings Based Method to calculate capital requirements on securitisations was carried out by using and maintaining the differentiation/system of signs that each ECAI has developed around the rating scale it uses under the standardised approach.

3.1.7 Timing of the policy

20. The performance of securitisation ratings, as reported in the ESMA CEREP dataset, will be regularly monitored and the default of a securitisation position will trigger considering the merit of a review of the mapping assigned, in the current proposal, to the ECAI that rated such instrument. Independently from the mentioned monitoring and potential reviews, the mappings proposed in this regulation will have to be reviewed, at the latest, before the new Basel Securitisation Framework comes into force in January 2018.

21. During this review, the EBA will consider the need for a quantitative mapping based on a consistent methodology.

3.1.8 Consistency with the ECAI mapping under Article 136 of the CRR

22. The EBA has, during the development of these ITS, carefully considered whether it would be desirable to align fully with the methodology that has been laid out for the purpose of the ratings mappings under Article 136 of the CRR. One the one hand, it would be desirable to have a unified methodology and the EBA believes that, in the medium-term, a quantitative methodology should be developed for the securitisation mappings. On the other hand, previous mappings, both at the international level and EU level (i.e. 2006 and 2010 CEBS mappings), recognised that the differences in the two types of prudential framework presented a significant challenge in this regard.

23. In particular, the very different calibrations of the capital requirements make it difficult to apply exactly the same methodology. Consequently, past work under CEBS also concluded that no uniform approach should be taken.

24. Hence these ITS do not propose a fully-fledged methodology for the reasons noted previously in this consultation paper.

4. Draft Implementing Technical Standards on the mapping of ECAIs' credit assessments for securitisation positions under Article 270 of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

EUROPEAN COMMISSION

Brussels, XXX
[…](2012) XXX draft

COMMISSION IMPLEMENTING REGULATION (EU) No …/..

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COMMISSION IMPLEMENTING REGULATION (EU) No …/2015

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supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for mapping of structured finance instrument ratings for external credit assessment institutions

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[5] and in particular Article 270 thereof,

Whereas:

(1) Article 270 of Regulation (EU) No 575/2013 requires the specification for all ECAIs, of the correspondence of the relevant credit assessments issued by an ECAI to the credit quality steps set out in Chapter 5 of that Regulation ('mapping'). ECAIs are credit rating agencies that are registered or certified in accordance with Regulation (EC) No 1060/2009 or a central bank issuing credit ratings which are exempt from the application of that Regulation. 'Credit assessment' is a term used under that Regulation to refer both to the 'labels' of the different categories of ratings by ECAIs (such as 'AAA'), and to assignment of one such rating to a particular item. However these two concepts are distinguished with the terms 'credit rating' and 'rating category', in Articles 3(1)(a) and (h) respectively of Regulation (EC) No 1060/2009. To avoid confusion given the need to refer to these two particular concepts separately, and given the complementarity of the two Regulations, the terminology of Regulation (EC) No 1060/2009 should be used in this Regulation, as more specific.

(2) Article 267 of Regulation (EU) No 575/2013 permits the use of credit ratings to determine the risk weight of a securitisation position only where the credit

5 OJ L 176, 27.06.2013, p.1.

assessment has been issued or has been endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009. Article 268 of Regulation (EU) No 575/2013 (point (b) of first subparagraph) permits the use of credit ratings to determine the risk weight of a securitisation position only where procedures, methodologies, assumptions, and the key elements underpinning the assessments are published by the ECAI, in accordance with Regulation (EC) No 1060/2009. In addition, Article 10(3) of Regulation (EC) No 1060/2009 provides that rating categories that are attributed to structured finance instruments are clearly differentiated from rating categories used for any other entities. On this basis, this regulation provides mappings of credit assessments to credit quality steps for those ECAIs that have methodologies in place as well as differentiated rating scales aimed at issuing securitisation ratings.

(3) As mandated by Article 270 of Regulation (EU) No 575/2013 the EBA has given consideration to quantitative factors (e.g.default and/or loss rates and the historical performance of credit assessments) as well as qualitative factors (range of transactions, methodologies and meaning of credit assessments). Thereafter, and in light of the existence of a wide range of transactions to which the securitisation credit ratings apply (i.e. sub-asset classes of securitisations), due to the materially heterogeneous historical performance of those sub-asset classes during the crisis and due to the substantial changes that both ECAIs' methodologies and the EU regulatory approach to securitisation have undergone since the crisis, an objective and consistent mapping of credit assessments to credit quality steps can be best achieved, at the time of developing this Regulation, through a qualitative analysis.

(4) In order to ensure an objective and consistent determination of the mapping, this Regulation relies on the mapping of credit assessments to credit quality steps that was issued in 2006 by the Committee of the European Banking Supervisors (CEBS) to apply to ECAIs issuing securitisation ratings at that time, not based on a quantitative mapping methodology but grounded on historical evidence on ratings performance prior to the financial crisis. That mapping had been drawn to ensure overall objectiveness and consistency among the relative degrees of risks expressed by the different rating grades used to assign credit ratings by the ECAIs operating at that point in time in the securitisation market.

(5) New ECAIs, that have entered the securitisation market since the CEBS mapping was issued and adopted by Member States, have not assigned a sufficient number of ratings for the historical performance of those ratings to be assessed with statistical confidence. In the absence of data on the historical performance of their ratings and of a reliable and consistent empirical benchmark on the performance of securitisation ratings across all ECAIs active in the market, this Regulation extends to new ECAIs the mapping of credit assessments to credit quality steps that is assigned to incumbent ECAIs. This Regulation aims at striking the right balance between ensuring prudence of the mapping allocated to all ECAIs and the need to avoid causing unduly material competitive disadvantages on those ECAIs that present an insufficient track record of ratings performance.

(6) For all ECAIs in the scope of this Regulation the mapping of long-term credit ratings to the twelve credit quality steps used under the Ratings Based Method of Regulation (EU) No 575/2013 (and where applicable the Internal Assessment

Approach as per Article 259(4) of that Regulation) for computing capital requirements on securitisation positions has been carried out by maintaining the differentiation/system of signs that each ECAI has developed around its rating scale used under the Standardised Approach.

(7) The mappings laid down in this Regulation cover credit ratings assigned to both securitisation and re-securitisation positions.

(8) Following the completion of the ongoing regulatory reforms of capital requirements applicable to securitisations, and with the aim of considering new historical evidence covering a sufficiently long post-crisis data history, the mapping tables in this Regulation should be updated when available information will allow a reconsideration of the design of a consistent and objective quantitative mapping methodology, in accordance with point b) and point c) or Article 270 of Regulation (EU) No 575/2013. Due to the lack of a systematic methodology and the lack of a benchmark for the performance of securitisation ratings, the data, as reported in the ESMA CEREP dataset, will be regularly monitored and the default of a securitisation position will trigger consideration of the merit of a review of the mapping assigned, in the current proposal, to the ECAI that rated that instrument.

(9) Regarding new or existing ECAIs entering the market of securitisation and seeking regulatory recognition of their credit ratings assigned to securitisation positions, the mapping tables should be available in a timely manner in order to not affect competition in the market. Therefore revised versions of this Regulation should be published either annually or within a reasonable time following publication by the ESMA of the registration of a new ECAI in accordance with Article 18(3) of Regulation (EC) No 1060/2009 which provides credit ratings for securitisation and/or re-securitisation positions covered by the mapping of this Regulation.

(10) This Regulation is based on the draft implementing technical standards submitted by the EBA to the Commission.

HAS ADOPTED THIS REGULATION:

Article 1 – *Mapping under the Standardised Approach*

The credit assessment categories for each ECAI shall correspond to the credit quality steps under the Standardised Approach as set out in Annex 1 of this Regulation.

Article 2 – *Mapping under the Ratings Based Method*

The credit assessment categories for each ECAI shall correspond to the credit quality steps under the Ratings Based Method of the IRB Approach as set out in Annex 2 of this Regulation.

Article 3 – *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.

Done at Brussels,

For the Commission
The President

[For the Commission
On behalf of the President

[Position]

ANNEX 1 – Mapping table under the Standardised Approach

Credit quality step	1	2	3	4	All other
ARC Ratings S.A.					
Medium and Long-Term Issues	AAA_{SF}, AA_{SF}	A_{SF}	BBB_{SF}	BB_{SF}	B_{SF}, CCC_{SF}, CC_{SF}, C_{SF}, D_{SF}
Short-Term Issues	$A\text{-}1_{SF}$	$A\text{-}2_{SF}$	$A\text{-}3_{SF}$		B_{SF}, C_{SF}, D_{SF}
Creditreform Ratings AG					
Long-term rating scale	AAAsf, AAsf	Asf	BBBsf	BBsf	Bsf, Csf, Dsf
DBRS Ratings Limited					
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	R-2	R-3		R-4, R-5, D
Fitch Ratings					
Long-term issuer credit ratings scale	AAAsf, AAsf	Asf	BBBsf	BBsf	Bsf, CCCsf, CCsf, Csf, RDsf, Dsf
Short-term rating scale	F1+sf, F1sf	F2sf	F3sf		Bsf, Csf, RDsf, Dsf
Japan Credit Rating Agency Ltd					
Long-term issuer ratings scale	AAA, AA	A	BBB	BB	B, CCC, CC, C, D
Kroll Bond Rating Agency					
Long-Term Credit	AAAsf, AAsf	Asf	BBBsf	BBsf	Bsf, CCCsf, CCsf, Csf, Dsf
Short-Term Credit	K1+sf, K1sf	K2sf	K3sf		Bsf, Csf, Dsf
Moody’s Investors Service					
Global long-term rating scale	Aaa(sf), Aa(sf)	A(sf)	Baa(sf)	Ba(sf)	B(sf), Caa(sf), Ca(sf), C(sf)

Global short-term rating scale	P-1(sf)	P-2(sf)	P-3(sf)		NP(sf)
Standard & Poor's Ratings Services					
Long-term issuer credit ratings scale	AAA, AA	A	BBB	BB	B, CCC, CC, C, SD, D, R
Short-term issuer credit ratings scale	A-1+, A-1	A-2	A-3		B-1, B, B-2, B-3, C, SD, D, R
Scope Rating					
Global long-term rating scale	AAA_{SF}, AA_{SF}	A_{SF}	BBB_{SF}	BB_{SF}	B_{SF}, CCC_{SF}, CC_{SF}, C_{SF}, D_{SF}
Global short-term rating scale	S-$1+_{SF}$, S-1_{SF}	S-2_{SF}	S-3_{SF}		S-4_{SF}

ANNEX 2 – Mapping table under the Ratings Based Method

Credit quality step	1	2	3	4	5	6	7	8	9	10	11	All other
ARC Ratings S.A.												
Medium and Long-Term Issues	AAA$_{SF}$	AA+$_{SF}$, AA$_{SF}$, AA-$_{SF}$	A+$_{SF}$	A$_{SF}$	A-$_{SF}$	BBB+$_{SF}$	BBB$_{SF}$	BBB-$_{SF}$	BB+$_{SF}$	BB$_{SF}$	BB-$_{SF}$	Below BB-$_{SF}$
Short-Term Issues	A-1+$_{SF}$, A-1$_{SF}$	A-2$_{SF}$	A-3$_{SF}$									BSF, CSF, DSF
Creditreform Ratings AG												
Long-term rating scale	AAAsf	AA+sf, AAsf, AA-sf	A+sf	Asf	A-sf	BBB+sf	BBBsf	BBB-sf	BB+sf	BBsf	BB-sf	Below BB-sf
DBRS Ratings Limited												
Long-term obligations rating scale	AAA(sf)	AA(H)(sf), AA(sf), AA(L)(sf)	A(H)(sf)	A(sf)	A(L)(sf)	BBB(H)(sf)	BBB(sf)	BBB(L)(sf)	BB(H)(sf)	BB(sf)	BB(L)(sf)	Below BB(L)(sf)
Commercial paper and short-term debt rating scale	R-1(H)(sf), R-1(sf), R-1(L)(sf)	R-2(H)(sf), R-2(sf), R-2(L)(sf)	R-3(sf)									R-4(sf), R-5(sf), D(sf)
Fitch Ratings												
Long-term issuer credit ratings scale	AAAsf	AA+sf, AAsf, AA-sf	A+sf	Asf	A-sf	BBB+sf	BBBsf	BBB-sf	BB+sf	BBsf	BB-sf	Below BB-sf
Short-term rating scale	F1+sf, F1sf	F2sf	F3sf									Bsf, Csf, RDsf, Dsf

Japan Credit Rating Agency Ltd												
Long-term issuer ratings scale	AAA	AA+, AA, AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	Below BB-
Kroll Bond Rating Agency												
Long-Term Credit	AAAsf	AA+sf, AAsf, AA-sf	A+sf	Asf	A-sf	BBB+sf	BBBsf	BBB-sf	BB+sf	BBsf	BB-sf	Below BB-sf
Short-Term Credit	K1+sf, K1sf	K2sf	K3sf									Bsf, Csf, Dsf
Moody's Investors Service												
Global long-term rating scale	Aaa(sf)	Aa1(sf), Aa2(sf), Aa3(sf)	A1(sf)	A2(sf)	A3(sf)	Baa1(sf)	Baa2(sf)	Baa3(sf)	Ba1(sf)	Ba2(sf)	Ba3(sf)	Below Ba3(sf)
Global short-term rating scale	P-1(sf)	P-2(sf)	P-3(sf)									NP(sf)
Standard & Poor's Ratings Services												
Long-term issuer credit ratings scale	AAAsf	AA+sf, AAsf, AA-sf	A+sf	Asf	A-sf	BBB+sf	BBBsf	BBB-sf	BB+sf	BBsf	BB-sf	Below BB-sf
Short-term issuer credit ratings scale	A-1+sf, A-1sf	A-2sf	A-3sf									B-1sf, Bsf, B-2sf, B-3sf, Csf, SDsf, Dsf, Rsf
Scope Rating												
Global long-term rating scale	AAA$_{SF}$	AA+$_{SF}$, AA$_{SF}$, AA-$_{SF}$	A+$_{SF}$	A$_{SF}$	A-$_{SF}$	BBB+$_{SF}$	BBB$_{SF}$	BBB-$_{SF}$	BB+$_{SF}$	BB$_{SF}$	BB-$_{SF}$	Below BB-$_{SF}$
Global short-term rating scale	S-1+$_{SF}$, S-1$_{SF}$	S-2$_{SF}$	S-3$_{SF}$									S-4$_{SF}$

5. Accompanying documents

5.1 Draft Impact Assessment

5.1.1 Introduction

The draft Regulatory and Implementing Technical Standards (RTS and ITS) have to be accompanied with an impact assessment according to the Article 10(1) of the EBA Regulation[6].

Article 270 of the CRR[7] mandates the EBA to develop ITS to determine, for all External Credit Assessment Institutions (ECAIs), which of the credit quality steps used in the CRR to compute own-funds requirements on securitisations are associated with the relevant credit assessments of an ECAI. The mandate also specifies that the mappings should be carried out in accordance with the following principles:

EBA shall differentiate between the relative degrees of risk expressed by each assessment;

- EBA shall consider quantitative factors, such as default and/or loss rates and the historical performance of credit assessments of each ECAI across different asset classes;
- EBA shall consider qualitative factors such as the range of transactions assessed by the ECAI, its methodology and the meaning of its credit assessments, in particular whether based on expected loss or first Euro loss, and to timely payment of interest or to ultimate payment of interest;
- EBA shall seek to ensure that securitisation positions to which the same risk weight is applied on the basis of the credit assessments of ECAIs are subject to equivalent degrees of credit risk. EBA shall consider amending its determination as to the credit quality step with which a particular credit assessment shall be associated, as appropriate.

5.1.2 Procedural issues and consultation process

In order to propose the draft ITS included in this consultation paper the EBA has informally consulted all the ECAIs that, as of 2014, resulted either registered or certified with the ESMA and were active in the securitisation market.

A. Problem identification

The prudential regulatory framework provided for in the CRR allows defining the credit quality of banks' exposures, where applicable, on the basis of ECAIs' credit risk ratings. The credit quality

6 Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

7 Regulation 575/2013 of the European Parliament and of the Council.

expressed by means of the different rating scales and rating grades assigned by each ECAI have to be mapped into a grid of credit quality levels that the CRR defines 'credit quality steps'. On the basis of these levels the CRR assigns different exposure classes different sets of risk-weights. To ensure that the ratings assigned by any given ECAI are allocated to the existing credit quality steps, and hence risk-weights, in a prudent and consistent fashion within the single market, a mapping of that ECAI's credit ratings into the CRR credit quality steps is necessary.

In the current regulatory framework, only a limited number of large/international ECAIs (namely, S&P, Moody's, Fitch and DBRS) have their securitisation ratings mapped into the credit quality steps of the CRR, on the basis of a mapping proposal elaborated by the CEBS in 2006 and adopted on a discretionary basis, at the national level, by the EU Member States.

In the absence of mapping tables provided for in the form of EBA technical standards (i.e. EU regulations) newer/smaller ECAIs do not have their securitisation ratings recognised for regulatory purposes, i.e. they cannot be used in accordance with the CRR in order to measure the credit quality of securitisation positions for the computation of capital requirements.

B. Policy objectives

By providing a mapping of credit ratings to credit quality steps for each and every registered/certified ECAI operating in the securitisation market, these ITS ensure that the credit assessments of any given ECAI be mapped towards risk weights on securitisation positions in a consistent and harmonised fashion in the EU market. In addition, by allowing newer /more recent ECAIs to gain a recognition of their credit assessments for prudential regulatory purposes in the area of securitisation, these ITS contribute to setting the conditions for the market of external credit risk assessments in the EU to develop towards a higher degree of competition.

C. Baseline scenario (current regulatory framework)

In January 2006 the CEBS published the Guidelines for the recognition of ECAIs (reviewed in November 2010) and reached an agreement on a proposal of common mapping of ratings of structured finance products towards credit quality steps for the ECAIs registered, at that time, to assign ratings to structured finance instruments, i.e. Standard and Poor's[8], Moody's, Fitch Ratings[9] and DBRS. The table below reports the mapping tables proposed by the CEBS to promote supervisory convergence and adopted, on a discretionary basis, by National Competent Authorities (NCAs).

Following a quantitative and qualitative type of analysis on each of the relevant ECAIs, CEBS reached the conclusion that, as can be seen in Table 1 below, same rating grades (e.g. me rating grades, issued by the different four ECAIs, should be mapped to the same credit quality steps.

8 Hereafter referred to as S&P.

9 Hereafter referred to as Fitch.

Table 1 mappings of rating grades to credit quality steps established by the CEBS (2006) and applicable to S&P, Moody's, Fitch and DBRS

		S&P	Moody's	Fitch	DBRS
Specific mapping to credit quality steps for securitisation positions (IRB)	1	AAA	Aaa	AAA	AAA
	2	AA	Aa	AA	AA
	3	A+	A1	A+	AH
	4	A	A2	A	A
	5	A-	A3	A-	AL
	6	BBB+	Baa1	BBB+	BBBH
	7	BBB	Baa2	BBB	BBB
	8	BBB-	Baa3	BBB-	BBBL
	9	BB+	Ba1	BB+	BBH
	10	BB	Ba2	BB	BB
	11	BB-	Ba3	BB-	BBL
	12	Below BB-	Below Ba3	Below BB-	Below BBL
Specific mapping to credit quality steps for long term securitisation positions (SA)	1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AAL
	2	A+ to A-	A1 to A3	A+ to A-	AH to AL
	3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBBH to BBBL
	4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BBH to BBL
	5	B+ and below	B1 and below	B+ and below	BH and below
Specific mapping to credit quality steps for short term securitisation positions (IRB)	1	A-1+, A-1	P-1	F1+, F1	R-1 High, Middle, Low
	2	A-2	P-2	F2	R-2 High, Middle, Low
	3	A-3	P-3	F3	R-3
	4	All short-term ratings below A-3	All short-term ratings below A3, P3 and F3	below F3	below R-3

Specific mapping to credit quality steps for short term securitisation positions (SA)	1	A-1+, A-1	P-1	F1+, F1	R-1 High, Middle, Low
	2	A-2	P-2	F2	R-2 High, Middle, Low
	3	A-3	P-3	F3	R-3
	All other credit assessments	All short-term ratings below A-3	NP	below F3	below R-3

D. Options considered

Article 270 of the CRR requires the EBA to give consideration to both quantitative (e.g. default and/or loss rates and historical performance across different asset classes) and qualitative factors (e.g. range of transactions rated by each ECAI, its methodology and the meaning of its credit assessments) in establishing the various mappings.

In addition to the text of the mandate in Article 270 of the CRR, and in order to better understand the technical options considered for the purposes of these ITS, consideration should, as well, be given to the CRR mandate to EBA, EIOPA and ESMA to specify mappings of credit ratings to credit quality steps for credit ratings assigned to issuers/instruments other than structured finance products (Article 136 of the CRR). Unlike Article 270 of the CRR, Article 136 of the CRR expressly provides that the three ESAs compare the historical default rates of ratings assigned by a given ECAI to a benchmark built on the basis of default rates experienced by other ECAIs on a population of rated issuers/instruments that present an equivalent level of credit risk.

The following sections illustrate in detail two main alternative approaches that were considered in order to determine draft mappings of structured finance ratings into credit quality steps for all the registered/certified ECAIs currently operating in the securitisation market.

The two alternative approaches considered are:

- **OPTION 1**: Systematic and quantitative mapping methodology based on ratings' historical default performance (where available); and
- **OPTION 2**: Qualitative assessment based on supervisory judgement and current regulatory mapping framework (CEBS 2006).

E. Cost-Benefit Analysis

Option 1: Systematic and quantitative mapping methodology based on ratings' historical default performance (where available)

A systematic and quantitative methodology for drawing mapping tables could be designed – to maximise consistency of regulatory approaches to the mapping of credit ratings - to closely follow the approach taken for the case of non-structured finance instruments, i.e. for credit ratings mapped in accordance with the mandate in Article 136 of the CRR.

This approach would comprise the following general principles:

- Making full use of historical evidence on ratings' historical default performance;
- Setting a regulatory benchmark in terms reference default performance of each existing rating grade (e.g. 'AAA' rating grade, 'AA' rating grade) against which to map the historical performance of all other ECAIs in order to map their credit ratings;
- Adjusting the mapping methodology with qualitative and/or other quantitative considerations in all those cases where historical performance is either not available (e.g. newer ECAIs entering the securitisation market) or deemed inappropriate.

In order to analyse the historical performance of structured finance ratings the following steps were taken:

- The analysis was focussed on ratings' historical performance as systematically collected within the CEREP dataset managed by the ESMA, and in particular on the ratings issued by the largest and most long-established ECAIs, i.e. S&P, Moody's, Fitch and DBRS;
- An event of default broadly consistent across those four ECAIs was identified.

The submission of data into the CEREP dataset is regulated by RTS published by ESMA[10]. Article 8 of the mentioned RTS allows ECAIs to submit data on events of default according to their own specific definition of default and, in addition, to potentially capture material impairment or similar events as deemed appropriate.

Informal exchange of information between the large/international ECAIs and the EBA has confirmed that the binary variable aimed at capturing default within the CEREP dataset captures different events in relation to different ECAIs.

As an alternative to the binary default variable embedded in the CEREP dataset the EBA considered identifying, within the dataset itself, downgrade events consistent with the three agencies' broadly similar definitions of default (see Table 8 in annex to the Impact Assessment for a representation of the three agencies definitions). For S&P, Fitch and DBRS a downgrade to a 'D' rating grade corresponds to a default event. Whereas Moody's does not use the rating grade 'D',

10 https://cerep.esma.europa.eu/cerep-web/homePage.xhtml.

the meaning of the rating grade 'C' is defined as an event very close, although not identical to, an event of default.

Following from the above considerations the EBA has carried out analysis of ratings' historical performance for the four largest and most long-established ECAIs by adopting the following default definitions:

- S&P, Fitch and DBRS: downgrade to 'D' rating grade;
- Moody's: downgrade to 'C' rating grade.

The default events, as defined in the previous paragraph, formed the basis for the calculation of three-year horizon cumulative default rates (CDRs) The choice of a three-year CDRs is based on the following considerations:

- As assessed through informal discussion with large/international ECAIs, the three-year horizon is broadly compatible with the time horizon agencies consider when rating a given structured finance product. In addition, it is a standard measure of default commonly considered in ECAIs' published statistics on the performance of assigned ratings.
- The three-year horizon CDR is the measure considered within the BCBS framework[11], where three-year CDRs are suggested as a measure of historical performance of credit risk ratings.
- The three-year horizon CDR is one measure of performance the CEBS had considered, in 2006, when proposing the mappings reported in Table 1, above.

Table 2, below, illustrates the average three-year CDR, per rating grade and ECAI, computed over the period of time July 2001 - January 2010.

Table 2: three-year default rates of all structured finance ratings per rating grade issued by the international ECAIs over the period of time July 2001 - January 2010

ECAI / Rating	AAA	AA	CQS1 (AAA/ AA)	A	BBB	BB	B	CCC	CC	C
S&P	2.6%	8.9%	3.9%	12.0%	18.1%	26.9%	43.1%	68.1%	75.4%	52.2%
Moody's	2.2%	17.5%	5.5%	18.2%	24.4%	29.5%	38.6%	41.2%	68.5%	0.0%
Fitch	1.4%	3.6%	1.8%	6.3%	9.3%	16.5%	23.2%	40.5%	58.1%	71.4%
DBRS	0.5%	0.3%	0.5%	0.2%	0.3%	0.5%	2.0%	51.2%	42.9%	0.4%

Source: CEREP data, EBA calculations.

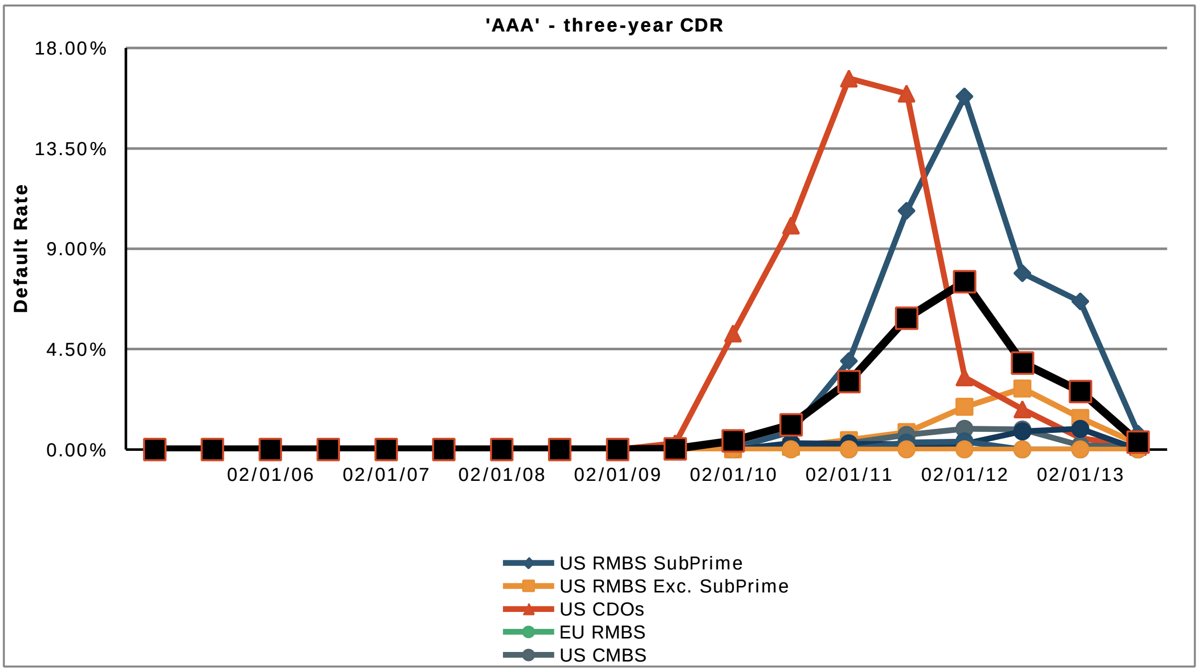
11 International Convergence of Capital Measurement and Capital Standards – Annex 2 (BCBS, 2006).

Two different outcomes should be highlighted:

- the resulting default rates, across rating grades and ECAIs, appear to be very high; and
- despite the identification of a broadly consistent event of default, a substantial degree of disparity appears to exist in the default rates related to any given rating grade across the four ECAIs.

In order to shed further light on the nature of these results, the time series dimension of ratings' performance as well as the asset class breakdown of that performance are respectively illustrated in Figure 1 and Table 2 below. The output, below, excludes ratings issued by DBRS given the materially different magnitude of default rates resulting for that rating agency.

Figure 1 three-year CDR at AAA level per asset class (July 2001-Jan 2010, S&P, Moody's and Fitch pooled)



Source: CEREP data, EBA calculations.

Table 2 three-year CDR per asset class (July 2001-Jan 2010, S&P, Moody's and Fitch)

	AAA	AA	A	BBB	BB	B	CCC	CC	% of benchmark sample
All SF	2.1%	10.9%	12.9%	18.2%	25.0%	36.2%	54.4%	67.9%	
US sub-prime	4.8%	22.4%	28.4%	36.6%	47.8%	55.8%	60.9%	82.6%	34%

US CDO	5.8%	10.1%	9.6%	10.7%	11.8%	18.6%	33.8%	46.4%	8%
US RMBS ex sub-prime	0.6%	7.1%	12.0%	18.0%	25.7%	29.8%	52.9%	64.6%	27%
US CMBS	0.3%	1.9%	3.3%	6.9%	15.0%	25.4%	65.4%	66.3%	10%
EU CMBS	0.3%	0.7%	0.9%	3.1%	6.8%	15.6%	31.0%	22.7%	1%
EU CDO	0.4%	0.7%	0.7%	1.2%	1.7%	4.3%	22.0%	20.6%	1%
US ABS	0.0%	0.6%	0.8%	2.2%	9.0%	15.9%	26.3%	24.0%	7%
EU ABS	0.0%	0.0%	0.1%	0.7%	1.9%	8.5%	51.7%	45.7%	1%
EU RMBS	0.0%	0.1%	0.1%	0.6%	4.0%	8.8%	22.8%	18.5%	3%
Current CQS	1	1	2	3	4	5	5	5	

Source: CEREP data, EBA calculations.

As can be observed the average three-year CDRs are significantly driven by the performance of two specific asset classes during the crisis years, namely:

- US sub-prime RMBS (and partly US RMBS); and
- US CDOs.

The last column of Table 2 shows the importance of any given asset class within the CEREP dataset on the basis of which CDRs are computed; the numbers show that US RMBS and US CDO transactions cover approximately 70% of the entire CEREP sample of ratings on the basis of which CDRs were computed. The bias towards these asset classes in the sample of available ratings issued by three large/international ECAIs contributes to the high average CDRs reported in Table 2 (also reflected 'All SF' default rates graphed by the black line in Figure 1).

Figure 1 also shows that default rates seem to begin reverting to pre-crisis levels on the last observation available in the current version of the CEREP dataset (three-year default rate computed with reference to the January 2010 cohort of ratings). Table 3 below reports the three-year default rate of the January 2010 cohort as computed over the benchmark sample, for all structured finance ratings as well as for individual asset classes. The table indeed reflects an improvement of the default performance across asset classes, and consequently in the All SF numbers.

Table 3 three-year CDR per asset class, January 2010 cohort

	AAA	AA	A	BBB	BB	B	CCC	CC
All SF	0.3%	1.0%	2.8%	7.7%	15.6%	23.3%	45.1%	65.8%
US sub-prime	0.7%	1.5%	6.2%	15.3%	23.4%	22.4%	46.2%	79.7%
US CDO	0.1%	0.3%	0.9%	2.7%	5.1%	7.3%	19.7%	39.3%
US RMBS ex sub-prime	0.3%	1.1%	2.4%	5.3%	9.8%	14.3%	45.7%	56.1%
US CMBS	0.1%	1.1%	3.3%	10.3%	25.6%	49.1%	81.8%	79.9%
EU CMBS	0.0%	0.0%	0.4%	3.3%	8.2%	15.6%	36.3%	24.0%
EU CDO	0.0%	0.4%	0.3%	0.0%	0.5%	1.5%	13.1%	21.4%
US ABS	0.0%	0.1%	0.4%	1.4%	4.2%	15.5%	12.6%	24.1%
EU ABS	0.0%	0.0%	0.7%	1.6%	1.8%	5.6%	8.1%	9.5%
EU RMBS	0.0%	0.2%	0.1%	0.8%	1.7%	5.7%	11.0%	9.6%
Current CQS	1	1	2	3	4	5	5	5

Source: CEREP data, EBA calculations

Establishing a systematic quantitative methodology for the mapping of structured finance ratings implies setting a regulatory benchmark in terms of reference default performance of each existing rating grade (e.g. ‘AAA’ rating grade, ‘AA’ rating grade) against which to map actual historical performance of ratings issued by ECAIs. In relation to the benchmarking methodology the EBA has given consideration to two approaches:

Option 1A: use the reference three-year CDRs proposed by the BCBS as reference default values for the non-structured finance credit ratings (see Table 14 in annex to this Impact Assessment) and referred to in the proposed EBA methodology for mapping credit risk ratings.

Option 1B: use the available historical evidence on CDRs to propose a structured finance specific reference three-year CDRs. Under this option, the EBA considered benchmarking ratings' historical performance against two alternative benchmarks:

- Long-term average three-year CDRs computed over the pool of ratings issued by S&P, Moody's and Fitch over the 2000-2013 time span, i.e. the 'All SF' figures reported in Table 2 (first row); and
- Three-year CDRs computed over the pool of ratings issued by S&P, Moody's and Fitch and outstanding in a post-crisis environment (i.e. in 2010), i.e. the 'All SF' figures reported in Table 3 (first row).

OPTION 2: Qualitative assessment based on supervisory judgement and current regulatory mapping framework (CEBS 2006)

The mapping of incumbent ECAIs can reflect the current regulatory mapping applicable to these ECAIs as established by the CEBS in 2006 (and reviewed in 2010).

Against the two alternative approaches (option 1 and option 2) the EBA assessed and considered both advantages and disadvantages, in terms of impacts and implications of the respective proposals, as summarised in Table 4 and Table 5 below. **<u>Option 2 was chosen to be included in the draft ITS.</u>**

Q1: Do you agree with the proposed approach to the mapping of securitisation ratings issued by the incumbent ECAIs?

Table 4 - Option 1: advantages and disadvantages

Advantages	Disadvantages
a) The methodology is fully based on a quantitative and systematic framework, which is broadly consistent with the methodology adopted for the mapping of non-structured finance credit ratings (as per Article 136 of the CRR). As such the methodology promotes regulatory consistency; b) The methodology makes use of available data on the historical performance of assigned ratings, including one period of financial stress (2007-2010); c) The methodology lays down a regulatory benchmark in terms of reference default performance of structured finance ratings.	a) The methodology would provide mappings based on: • Historical performance which is strongly driven by the crisis defaults of very specific securitisation asset classes, in terms of type of underlying collateral and geographical location. Some of these products, e.g. CDOs, are currently almost absent from the market; • Historical performance measured by default definitions which are not consistent across ECAIs. • Credit ratings which are no longer representative of the current rating methodologies, particularly for those specific asset classes biasing the crisis performance of the structured finance market. This mostly due to: i) the implemented changes in ECAIs' rating methodologies to address the main deficiencies of the pre-crisis methodologies; ii) the regulatory intervention on rating agencies and securitisation issuers which has taken place, at various levels, since the default excesses of the financial crisis materialised, in order to cure several drawbacks of the pre-crisis securitisation business model; • The mappings would not take into account the apparent trend of reversion to pre-crisis default rate levels, away from the 2009-2012 spikes in defaults, increasing the relevance of the capability of historical ratings to represent currently issued ratings. b) Impacts of specific benchmark default rates: • Both the BCBS benchmark for non-securitisation ratings (i.e. Option 1A) and a benchmark based on post-crisis default performance (under Option 1B) the large/long-established ECAIs, which are currently mapped under the CEBS (2006) mapping, would receive new mappings substantially worsening the CQS position of their outstanding ratings, implying an overall material increase of regulatory capital costs for outstanding securitisations across the market. This type of impact on

outstanding transactions would overlap with the impact of rating downgrades that outstanding transactions have likely already received since the financial crisis, as a consequence of the tightening of rating methodologies. The objective of avoiding a disproportionate increase in the regulatory capital costs of current securitisation transactions should be taken into account. Table 11 and Table 12 in the Annex to the Impact Assessment show the worsening of the mappings, with respect to the currently existing mapping, that would result from benchmarking historical performance against either BCBS reference default rates for non-securitisation ratings or the post-crisis performance of securitisation ratings.

- Benchmark three-year CDRs computed on the basis of the 2000-2013 historical performance of securitisation ratings, issued by S&P, Moody's and Fitch, result in materially different mapping outcomes for different ECAIs. Whereas the mapping of S&P would remain identical to the one currently applicable, the mapping of Fitch would result in a more conservative treatment of certain rating grades, the mapping of Moody's would result in a less conservative treatment of certain rating grades and the mapping of DBRS would improve to the extent of mapping every DBRS rating grades to CQS1.

c) The mappings would have to be necessarily reviewed with the implementation of the newly published Basel Securitisation Framework (December 2014), which sets new risk-weights on securitisation exposures and substantially changes the properties of the external ratings based approach.

d) The benchmarks set out in the Basel framework were not intended to apply to the securitisation market, hence the calibration of capital requirements to these benchmark levels may not be fully appropriate.

Table 5 Option 2: advantages and disadvantages

Advantages	Disadvantages
a) It does not present the disadvantages of Option 1, which resulted in a mapping that cannot be considered 'objective and consistent'. b) It is based on the conclusions of quantitative and qualitative analysis carried out on more reliable and consistent data.	a) It does not provide a systematic quantitative mythology for the mapping of structured finance ratings. In this respect it is not consistent with the methodology adopted for the mapping of non-structured finance credit ratings (as per Article 136 of the CRR). b) The methodology does not make use of available data on the historical performance of assigned ratings, including one period of financial stress (2007-2010).

Technical options considered in relation to the methodology to be followed in drawing the mappings related to ECAIs for which insufficient historical performance data is available

During the development of this ITS the following ECAIs are registered/certified with ESMA and have methodologies and ratings scales in place to issue ratings of structured finance instruments:

- Creditreform Rating;
- Kroll Bond Rating Agency;
- Scope Ratings;
- Japan Credit Rating Agency; and
- ARC Ratings S.A.

As discussed previously one significant difference between the international and smaller ECAIs is the availability of data on ratings historical performance. In relation to the mapping of ratings issued by ECAIs with insufficient or no evidence on historical performance the EBA gave consideration to the following approaches:

Option A: the mappings should incorporate some conservative adjustment that reflects the lack of empirical evidence on the basis of which the ECAI can be assessed (i.e. conservative treatment). Under this option, the EBA gave consideration to two different approaches for implementing a conservative adjustment:

- implementing a conservative adjustment based on a quantitative (statistical) methodology, along broadly consistent lines with the conservative adjustment proposed by the EBA for the mapping of non-securitisation ratings issued by ECAIs with insufficient historical performance data (as per Article 136 of the CRR); and
- implementing a conservative adjustment based on supervisory judgement.

Option B: the mapping should be aligned to the one proposed for the large/long-established ECAIs (i.e. equal treatment).

Against the two alternative approaches, outlined under Option A and Option B, the EBA assessed and considered both advantages and disadvantages, in terms of impacts and implications of the respective proposals, as summarised in Table 6 below. **Option B was chosen to be included in the draft ITS.**

Q2: Do you agree with the proposed approach to the mapping of securitisation ratings issued by small/more recent ECAIs?

Q3: Do you see any adverse market implications/conceptual drawbacks arising from potentially inconsistent mappings being applied to any given ECAI across the standardised approach for credit risk (mapping under Article 136 of the CRR) and the securitisation framework (mapping under Article 270 of the CRR)?

Table 6 Option A (conservative treatment): advantages and disadvantages

Advantages	Disadvantages
a) The adjustment (either based on a statistical methodology or on supervisory judgement) builds in a degree of prudential conservatism as a consequence of lack of empirical data on the basis of which the performance of the ratings issued by an ECAI can be assessed.	a) A conservative adjustment based on a quantitative (statistical) methodology would only be feasible if adopted in conjunction with Option 1 for the general approach to the mapping of ratings issued by incumbent ECAIs, as a securitisation-specific set of benchmark default rates would be needed.
b) The approach is broadly consistent with the approach taken by the EBA in the regulatory mapping of non-structured finance credit ratings, and hence promotes regulatory consistency across exposure classes.	b) A conservative adjustment justified by data availability concerns, either based on a quantitative methodology or on supervisory judgement, would be not be a commensurate treatment for small/new ECAIs given the adoption, for incumbent ECAIs, of mappings that are not systematically based on historical data.

Table 7 Option B (equal treatment): advantages and disadvantages

Advantages	Disadvantages
a) The approach will ensure consistency across rating agencies.	a) The approach would result in a mapping that does not embed any degree of conservatism due to the lack of historical evidence on the performance of ratings issued by small/new ECAIs. This would hence not incentivise smaller ECAIs to provide more ratings.
	b) This approach would lead to a scenario where a specific securitisation rating grade (e.g. AAAsf) of a given small/new ECAI may be mapped to a CQS that is different (i.e. higher quality) than the CQS to which the same rating grade (e.g. AAA) of the same ECAI is mapped in accordance with the mapping of non-securitisation ratings. This outcome would be at odds with the principle, generally stated by ECAIs, according to which a given rating grade, although not targeting any specific default probability, should represent comparable credit quality across asset classes and across rated entities/products.

5.1.3 Annex to the Impact Assessment

Table 8 Definition of default in S&P, Moody's, Fitch and DBRS

ECAI	Definition of default
S & P	S&P has a specific rating grade 'D' for Default and Default corresponds to a downgrade of the tranche to 'D' Rating 'D' An obligation rated 'D' is: a) in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The 'D' rating also will be used upon the: b) filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. c) An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.

Moody's	Moody's definition of default is applicable only to debt or debt-like obligations (e.g., swap agreements). Four events constitute a debt default under Moody's definition: a) a missed or delayed disbursement of a contractually-obligated interest or principal payment (excluding missed payments cured within a contractually allowed grace period), as defined in credit agreements and indentures; b) a bankruptcy filing or legal receivership by the debt issuer or obligor that will likely cause a miss or delay in future contractually-obligated debt service payments; c) a distressed exchange whereby 1) an obligor offers creditors a new or restructured debt, or a new package of securities, cash or assets that amount to a diminished financial obligation relative to the original obligation and 2) the exchange has the effect of allowing the obligor to avoid a bankruptcy or payment default in the future; or d) a change in the payment terms of a credit agreement or indenture imposed by the sovereign that results in a diminished financial obligation, such as a forced currency re-denomination (imposed by the debtor, himself, or his sovereign) or a forced change in some other aspect of the original promise, such as indexation or maturity Moody's definition of default does not include so-called "technical defaults," such as maximum leverage or minimum debt coverage violations, unless the obligor fails to cure the violation and fails to honour the resulting debt acceleration which may be required. Also excluded are payments owed on long-term debt obligations which are missed due to purely technical or administrative errors which are 1) not related to the ability or willingness to make the payments and 2) are cured in very short order (typically, 1-2 business days).

Fitch	Fitch has a specific rating grade 'D' for Default and Default corresponds to a downgrade of the tranche to 'D' Rating 'D' Indicates a default. Default generally is defined as one of the following: • failure to make payment of principal and/or interest under the contractual terms of the rated obligation; • the bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of the business of an issuer/obligor; or • the distressed exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation to avoid a probable payment default.
DBRS	DBRS has a specific rating grade 'D' for Default and Default corresponds to a downgrade of the tranche to 'D' D is used for issuer and security ratings when: • The issuer has filed under any applicable bankruptcy, insolvency or winding up statute. • There is failure to pay or satisfy an obligation (subject to applicable grace periods and/or waiver of such failure) in accordance with the underlying transaction documents and DBRS believes that this default will subsequently be general in nature and include all obligations. • Independent of the issuer rating, securities described as a Distressed Exchange are downgraded to D. DBRS also reserves the right to downgrade ratings to 'D' when it believes that a general default is imminent and unavoidable, although this is a less frequent and a more subjective decision. For securitization transactions where assets are highly unlikely to repay future obligations, DBRS generally downgrades the security to C until the legal maturity final date of such obligation.

Table 9 Rating grade definitions for S&P, Moody's, Fitch and DBRS

	S&P		Moody's		Fitch		DBRS
AAA	An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.	**Aaa**	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.	**AAA**	'AAA' ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.	**AAA**	Highest credit quality. The capacity for the payment of financial obligations is exceptionally high and unlikely to be adversely affected by future events.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.	**Aa**	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.	**AA**	'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	**AA**	Superior credit quality. The capacity for the payment of financial obligations is considered high. Credit quality differs from AAA only to a small degree. Unlikely to be significantly vulnerable to future events.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.	**A**	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk	**A**	'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.	A	Good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.

BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.	**Baa**	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.	**BBB**	'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.	**BBB**	Adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events.
BB	An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.	**Ba**	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.	**BB**	'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.	**BB**	Speculative, non-investment grade credit quality. The capacity for the payment of financial obligations is uncertain. Vulnerable to future events.

B	An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.	**B**	Obligations rated B are considered speculative and are subject to high credit risk.	**B**	'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.	**B**	Highly speculative credit quality. There is a high level of uncertainty as to the capacity to meet financial obligations.
CCC	An obligation rated 'CCC' is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.	**Caa**	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.	**CCC**	Default is a real possibility.	**CCC**	Very highly speculative credit quality. In danger of defaulting on financial obligations. There is little difference between these three categories, although CC and C ratings are normally applied to obligations that are seen as highly likely to default, or subordinated to obligations rated in the CCC to B range.

CC	An obligation rated 'CC' is currently highly vulnerable to nonpayment. The 'CC' rating is used when a default has not yet occurred, but Standard & Poor's expects default to be a virtual certainty, regardless of the anticipated time to default.	**Ca**	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.	**CC**	Default of some kind appears probable.	**CC**	Very highly speculative credit quality. In danger of defaulting on financial obligations. There is little difference between these three categories, although CC and C ratings are normally applied to obligations that are seen as highly likely to default, or subordinated to obligations rated in the CCC to B range.
C	An obligation rated 'C' is currently highly vulnerable to nonpayment,and the obligation is expected to have lower relative seniority or lower ultimate recovery compared to obligations that are rated higher.	**C**	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.	**C**	Default appears imminent or inevitable.	**C**	Very highly speculative credit quality. In danger of defaulting on financial obligations. There is little difference between these three categories, although CC and C ratings are normally applied to obligations that are seen as highly likely to default, or subordinated to obligations rated in the CCC to B range. Obligations in respect of which default has not technically taken place but is considered inevitable may be rated in the C category.

D	An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation's rating is lowered to 'D' if it is subject to a distressed exchange offer.	**D**	Indicates a default. Default generally is defined as one of the following: • failure to make payment of principal and/or interest under the contractual terms of the rated obligation; • the bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of the business of an issuer/obligor; or • the distressed exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation to avoid a probable payment default.	**D**	When the issuer has filed under any applicable bankruptcy, insolvency or winding up statute or there is a failure to satisfy an obligation after the exhaustion of grace periods, a downgrade to D may occur. DBRS may also use SD (Selective Default) in cases where only some securities are impacted, such as the case of a “distressed exchange”. For securitization transactions where assets are highly unlikely to repay future obligations, DBRS generally downgrades the security to C until the legal maturity final date of such obligation. For transactions where assets are structured and firewalled with a very high level of certainty to be bankruptcy remote (for example, a first mortgage on a property that will almost certainly result in an ongoing ability to keep payments current and fully repay principal), the Rating Committee has the discretion to deviate from the principle that on the occurrence of an insolvency event, all debt lines should be moved to D.

Table 10 Rating grade definitions for ARC Ratings S.A., Creditreform Ratings AG, Japan Credit Rating Agency Ltd, Kroll Bond Rating Agency, Scope Rating

	ARC Ratings S.A.	Creditreform Ratings AG	Japan Credit Rating Agency Ltd	Kroll Bond Rating Agency	Scope Rating
AAA	An obligation rated "AAA" has the highest possible rating assigned by ARC Ratings. The obligor's future cash flow capacity to meet its financial commitments on the obligation is gauged as extremely strong. A timely and full payment of principal and interest thereof is not but remotely subject to adverse influence of an outside force or future event.	Best rating, lowest risk for investors.	The highest level of certainty of an obligor to honour its financial obligations.	Determined to have almost no risk of loss due to credit-related events. Assigned only to the very highest quality obligors and obligations able to survive extremely challenging economic events.	Ratings at the AAA level reflect an opinion of the strongest credit quality with the lowest default risk.
AA	An obligation rated "AA" differs from the highest rated obligations only in a very small degree. The obligor's capacity to meet its financial commitments on the obligation remains very strong.	Very good rating, very low risk for investors.	A very high level of certainty to honour the financial obligations.	Determined to have minimal risk of loss due to credit-related events. Such obligors and obligations are deemed very high quality.	Ratings at the AA level reflect an opinion of strong credit quality with very low default risk.
A	An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions when compared to obligations in highest categories. However, the obligor's capacity to meet its financial commitments on the obligation remains quite strong.	Good rating, low risk for investors.	A high level of certainty to honour the financial obligations.	Determined to be of high quality with a small risk of loss due to credit-related events. Issuers and obligations in this category are expected to weather difficult times with low credit losses.	Ratings at the A level reflect an opinion of good credit quality with low default risk.

BBB	An obligation rated "BBB" always exhibits an adequate set of protection parameters. However, adverse economic conditions or suddenly changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the obligation.	Highly satisfactory rating, low to medium risk for investors.	An adequate level of certainty to honour the financial obligations. However, this certainty is more likely to diminish in the future than with the higher rating categories.	Determined to be of medium quality with some risk of loss due to credit-related events. Such issuers and obligations may experience credit losses during stress environments.	Ratings at the BBB level reflect an opinion of moderate credit quality with acceptable default risk.
BB	An obligation rated "BB" exhibits a fair set of financial protection parameters. However, the obligor may face a future deterioration of its payment capacity due to adverse business, financial or economic conditions, which could lead to an unforeseen deterioration of the chances of a timely and full debt servicing.	Satisfactory rating, medium risk for investors	Although the level of certainty to honour the financial obligations is not currently considered problematic, this certainty may not persist in the future.	Determined to be of low quality with moderate risk of loss due to credit-related events. Such issuers and obligations have fundamental weaknesses that create moderate credit risk.	Ratings at the BB level reflect an opinion of weak credit quality with material default risk.
B	An obligation rated "B" is more vulnerable than obligations rated "BB", in the sense that its obligor, while currently showing a limited capacity to meet its financial commitments on the obligation, may under adversely changing business, financial or economic conditions very likely impair such capacity or even the willingness to service its debt.	Adequate rating, higher risk for investors	A low level of certainty to honour the financial obligations, giving cause for concern.	Determined to be of very low quality with high risk of loss due to credit-related events. These issuers and obligations contain many fundamental shortcomings that create significant credit risk.	Ratings at the B level reflect an opinion of very weak credit quality with high default risk and potentially limited loss-severity risk upon default.

CCC	An obligation rated "CCC" is currently very vulnerable, and is thus strictly dependent upon favourable business, financial, and economic conditions facing the obligor to meet its financial commitment. Upon the event of adverse business, financial or economic conditions, the obligor will most likely not have the capacity to meet its financial commitments on the obligation.	Barely adequate rating, high to very high risk for investors.	There are factors of uncertainty that the financial obligations will be honoured, and there is a possibility of default.	Determined to be at substantial risk of loss due to credit-related events, or currently in default with high recovery expectations.	Ratings at the CCC level reflect an opinion of poor quality with very high credit risk, reflecting a potentially material loss-severity risk upon default.
CC	An obligation rated "CC" is highly vulnerable to payment delays and/or partial default although not showing payment delays at present, due to its own endogenous limitations, notwithstanding the outside conditions facing the obligor.	Barely adequate rating, high to very high risk for investors.	A high default risk.	CC Determined to be near default or in default with average recovery expectations.	Ratings at the CC level reflect an opinion of very poor credit quality, with extremely high credit risk, reflecting a potentially very material loss-severity risk upon default.
C	An obligation rated "C" faces an imminent default. The "C" rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation have not yet been discontinued.	Barely adequate rating, high to very high risk for investors.	A very high default risk.	Determined to be near default or in default with low recovery expectations.	Ratings at the C level reflect an opinion of extremely poor credit quality with risk near default and heightened loss-severity risk.
D	An obligation rated "D" is currently under payments default.	Insufficient rating, insolvency, negative characteristics. A default of a company or bond rating occurs if: the company will probably not	JCR judges that the obligation is in default. "Default" means a state in which principal and/or interest payments of financial obligations cannot be made as initially agreed.	KBRA defines default as occurring if: • There is a missed interest or principal payment on a rated obligation which is unlikely to	Ratings at the D level refer to credit default situations.

be able to fulfil its payment obligations to banks or other debts investors. • Debtors or the company files for insolvency • a relevant obligation already is overdue for more than 90 days Indicators of imminent payment behaviour are: • Debt investors/banks abandon a coupon payment (suspension of interest payment) • Debt investors/banks have to sell their obligation with a loss (restructuring) • The Creditreform database gives a strong indication for days overdue A default of a structured financing occurs when an advised payment has not been paid.	This includes • the state where JCR judges it is impossible that principal and interest payments of the financial obligations can be made as agreed due to filing of a petition for legal proceedings such as Bankruptcy, • Corporate Reorganization, Civil Rehabilitation, or Special Liquidation proceedings.	be recovered; • The rated entity files for protection from creditors, is placed into receivership or is closed by regulators such that a missed payment is likely to result; • The rated entity seeks and completes a distressed exchange, where existing rated obligations are replaced by new obligations with a diminished economic value.

Box 1 Calculation of a single 3-year horizon default rate (also called short-term 3-Year default rate)

E.g. 3-Year default rate related to Jan 2002 cohort and over the Jan 2002-Jul 2004 3-year horizon (6 semesters):

- All tranches existing at Jan 2002 rated 'AAA' constitute the 'AAA' cohort for Jan 2002. Similar reasoning for other rating grade cohorts of Jan 2002 (AA, A, etc.).
- All tranches already rated 'D' (for S&P and Fitch) and 'C' (for MDY) at Jan 2002 are excluded from the Jan 2002 cohort default rate computations.
- All tranches of the 'AAA' cohort of Jan 2002 that are downgraded to 'D' (for S&P and Fitch) and 'C' (for MDY) at any point in time during the Jan 2002-Jul 2003 window count as default events. Similar reasoning for other rating grade cohorts of Jan2002 (AA, A, etc.). If a given tranche is downgraded to 'D' (or 'C' for MDY) and then re-upgraded before the end of the Jan2002-Jul2004 window – that tranche still counts as a default event.
- Within the 'AAA' cohort of Jan 2002 all tranches whose rating is withdrawn before the end of the Jan2002-Jul2004 window count as 0.5 in the denominator of the 'AAA' Jan2002 cohort default rate. Similar reasoning for other rating grade cohorts of Jan 2002 (AA, AA, etc.).

Table 11 Mappings resulting from the benchmarking of ratings' historical performance against the Basel reference three-year CDRs for non-securitisation finance ratings (worsening with respect to current mapping highlighted in orange)

ECAI / Rating	AAA/AA	A	BBB	BB	B & below
Standard & Poor's	CQS4	CQS5	CQS5	CQS5	CQS5
Moody's	CQS4	CQS5	CQS5	CQS5	CQS5
Fitch	CQS3	CQS4	CQS4	CQS5	CQS5
DBRS	CQS2	CQS2	CQS2	CQS2	CQS3

Table 12 Mappings resulting from the benchmarking of ratings' historical performance against the performance of the 2010 pooled cohort of S&P, Moody's and Fitch ratings (worsening with respect to current mapping highlighted in orange)

ECAI / Rating	AAA/AA	A	BBB	BB	B & below
Standard & Poor's	CQS2	CQS4	CQS4	CQS4	CQS5
Moody's	CQS3	CQS4	CQS4	CQS4	CQS5
Fitch	CQS2	CQS3	CQS3	CQS4	CQS5
DBRS	CQS1	CQS1	CQS1	CQS1	CQS2
Current (CEBS) mapping	CQS1	CQS2	CQS3	CQS4	CQS5

Table 13 Mappings resulting from the benchmarking of ratings' historical performance against the long-term average three-year CDR computed over the 2000-2013 pool of ratings issued by S&P, Moody's and Fitch (worsening with respect to current mapping highlighted in orange, improvements with respect to current mapping highlighted in light orange)

ECAI / Rating	AAA/AA	A	BBB	BB	B & below
Standard & Poor's	CQS1	CQS2	CQS3	CQS4	CQS5
Moody's	CQS1	CQS3	CQS4	CQS4	CQS5
Fitch	CQS1	CQS1	CQS2	CQS3	CQS5
DBRS	CQS1	CQS1	CQS1	CQS1	CQS1
Current (CEBS) mapping	CQS1	CQS2	CQS3	CQS4	CQS5

Box 2 Further considerations related to the use of available securitisation ratings' historical performance data

A) ECAIs implementing amendments to their rating methodologies and assumptions

Since 2008 ECAIs assigning credit assessments to structured finance instruments have implemented amendments to their rating methodologies and assumptions which have resulted in more comprehensive and conservative risk assessments on rated products, particularly in the asset classes which most of all underperformed during the crisis years predominantly causing the significant upward bias in default rates obtained and should result in reduction of these default rates going forward.

It should be noted that, conversely, rating methodology and assumption amendments have been far less widespread in the corporate credit assessment segment.

B) Ongoing regulatory work streams

In relation to ongoing actions there currently exist a number of concurrent work streams on the regulatory treatment of credit assessments of securitisations.

At the Basel level a new Securitisation Framework (bank regulatory capital requirements on securitisations) has been published in December 2014. The new framework prioritise the adoption of a formula based approach (Internal Ratings Based Approach) over the External Ratings Based Approach (ERBA); within the latter the new framework proposes capital charges which are, in average terms, higher than those prevailing under the Standardised Approach and Ratings Based Method currently in force.

The EBA, at the European level, and the Basel Committee together with the IOSCO, at the global level, are exploring the possibility of introducing differentiation in capital requirements based on compliance of securitisation instruments with criteria defining simplicity, transparency and standardisation.

C) Regulatory interventions in the area of securitisation since the financial crisis

There has also been action taken since 2008 to improve the quality of credit assessments for structured finance instruments.

The EU introduced the EU Regulation on Credit Rating Agencies in 2009, subsequently amended in 2011 and 2013 which introduces regulation of CRAs where there had been none prior to its introduction. The Regulation invested comprehensive powers to ESMA to supervise CRAs and where necessary investigate and take enforcement action. In addition the Regulations include rules on CRAs conducting business to ensure the quality of credit assessments, e.g. avoid conflicts of interest, ongoing monitoring of credit ratings and rating methodologies which must be, inter alia, rigorous and systematic and requiring a high level of transparency.

The most recent set of Regulations, CRA3, introduced yet more rules to ensure the quality of credit assessments. These include:

- Obligation for the CRA to conduct public consultation where it intends to make a material change to, or use, new rating methodologies, models or key rating assumptions (Article 8(5a));
- introducing liability to CRAs in case of infringement or gross negligence;
- shareholder disclosure requirements, to mitigate the risk of conflicts of interest; and
- prohibition of ownership of 5% or more of the capital or the voting rights in more than one CRA, to ensure the diversity and independence of credit ratings and opinions.

The risk retention rules incentivise originators, issuers and investors to conduct quality screenings properly, improve underwriting standards and monitor for credit risk adequately.

There have also been initiatives increasing information and data disclosure of securitisation transactions in the form of CRA3 Article 8(b). This requires "[t]he issuer, the originator and the sponsor of a structured finance instrument established in the Union shall, on the website set up by ESMA, jointly publish information on the credit quality and performance of the underlying assets of the structured finance instrument, the structure of the securitisation transaction, the cash flows and any collateral supporting a securitisation exposure as well as any information that is necessary to conduct comprehensive and well-informed stress tests on the cash flows and collateral values supporting the underlying exposures." ESMA has also developed, and the EC adopted, a RTS on disclosure requirements which specify that:

- the data requirement is on a loan-level basis;
- reporting will be made on a timely basis, i.e. quarterly; and
- the disclosure requirement will also extend to disclosure of transaction documents.

Market-driven initiatives promoting labels associated to compliance with market standards and definitions have also taken place since the financial crisis struck.

Box 3 Requirements related to the appointment of more than one rating agency

Double credit rating of structured finance instruments [Article 8c of the CRA3]

Where an issuer or a related third party intends to solicit a credit rating of a structured finance instrument, it shall appoint at least two credit rating agencies to provide credit ratings independently of each other.

Use of multiple credit rating agencies [Article 8d of the CRA3]

Where an issuer or a related third party intends to appoint at least two credit rating agencies for the credit rating of the same issuance or entity, the issuer or a related third party shall consider appointing at least one credit rating agency with no more than 10 % of the total market share, which can be evaluated by the issuer or a related third party as capable of rating the relevant issuance or entity, provided that, based on ESMA's list referred to in paragraph 2, available for rating the specific issuance or entity. Where the issuer or a related third party does not appoint at least one credit rating agency with no more than 10 % of the total market share, this shall be documented.

Maximum duration of the contractual relationship with a credit rating agency [Article 6b of the CRA3]

Where a credit rating agency enters into a contract for the issuing of credit ratings on re-securitisations, it shall not issue credit ratings on new re-securitisations with underlying assets from the same originator for a period exceeding four years.

Use of ECAI credit assessments for the determination of risk-weights – General Requirements [Article 138 of the CRR]

[…]

(e) where two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned;

(f) where more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

Table 14 Basel benchmark three-year CDRs related to non-structured finance credit ratings

	CQS	Benchmark 3-year default rate
AAA/AA	1	0.1%
A	2	0.25%
BBB	3	1%
BB	4	7.50%
B	5	20.00%
CCC or below	6	n/a

5.2 Overview of questions for consultation

Q1: Do you agree with the proposed approach to the mapping of securitisation ratings issued by the incumbent ECAIs?

Q2: Do you agree with the proposed approach to the mapping of securitisation ratings issued by small/more recent ECAIs?

Q3: Do you see any adverse market implications/conceptual drawbacks arising from potentially inconsistent mappings being applied to any given ECAI across the standardised approach for credit risk (mapping under Article 136 of the CRR) and the securitisation framework (mapping under Article 270 of the CRR)?