EBA/ITS/2016/02

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EBA FINAL 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

Abbreviations

ABS	asset-backed security
BCBS	The Basel Committee on Banking Supervision
BSG	EBA Banking Stakeholder Group
CDO	collateralised debt obligation
CDR	cumulative default rate
CEBS	The Committee of European Banking Supervisors
CEREP	central repository for publishing the rating activity statistics and rating performance statistics of credit rating agencies
CMBS	commercial mortgage-backed security
CMU	Capital Markets Union
CQS	credit quality step
CRA	credit rating agency
CRA3	Regulation (EU) No 462/2013, amending Regulation (EC) No 1060/2009 on credit rating agencies
CRD IV	Directive 2013/36/EU, the Capital Requirements Directive
CRR	Regulation (EU) No 575/2013, the Capital Requirements Regulation
DBRS	Dominion Bond Rating Service
ECAI	external credit assessment institution
EIOPA	The European Insurance and Occupational Pensions Authority
ERBA	External Ratings Based Approach
ESMA	The European Securities and Markets Authority
FSB	The Financial Stability Board
ITS	implementing technical standards
IRB	Internal Ratings Based Approach
LCR	liquidity coverage ratio
NCA	national competent authority
RBM	Ratings Based Method
RMBS	residential mortgage-backed security
RTS	regulatory technical standards
SA	Standardised Approach
SF	structured finance
S&P	Standard & Poor's

1. 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 Directive 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 smaller ECAIs, that is, 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 CEBS mappings (which were reviewed in 2010). Such choice is motivated by impact analysis as well as by 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

[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).

Article 136 of the CRR, fully based on securitisation ratings' historical performance, the following elements have been considered to support the proposed qualitative approach to the mappings:

- available data on ratings' historical performance are strongly driven by the crisis performance of very specific securitisation sub-asset classes, in terms of the type of underlying collateral and geographical location, thus undermining an objective and consistent comparative analysis;
- available data on ratings' historical performance are 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 be most likely to 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 smaller ECAIs, for which sufficient data on ratings' historical performance are not available, are aligned to those proposed for ECAIs with historical performance data.

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 a large availability of data on historical performance was not based on a consistent and objective mapping methodology for the reasons listed above, applying a degree of regulatory conservatism on ECAIs with insufficient historical performance data on the grounds of lack of data availability does not appear to be 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 with the incorporation of the new Basel Securitisation Framework into the CRR. The EBA will, during this process, reconsider the need for a quantitative-based mapping approach.

2. Background and rationale

2.1 Background to these draft ITS

2.1.1 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 over-reliance 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 second in the hierarchy of approaches, favouring the use, where applicable, of the Internal Ratings Based Approach.

2.1.2 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 Articles 251 and 259(1)(a), respectively). As stated in Article 269 of the CRR, external credit assessments can be used only if provided by an external credit assessment institution (ECAI).

4. The 'mapping' should be provided for all ECAIs, defined in accordance with 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 smaller ECAIs, that is, 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 cover only 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.

2.1.3 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 a subscript SF 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.

2.1.4 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. An 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 are 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 are 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 but 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 ECAIs' mappings if compared with 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 be most likely to 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 capital requirements that are too high 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 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, the BCBS securitisation framework published in 2014 will need to be implemented, which impacts the risk-weighting of securitisation positions. In light of this upcoming substantial framework change, 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 (reviewed in November 2010), at that time covering the mappings of securitisation ratings issued by Standard and Poor's (S&P), Moody's Investor Services, Fitch Ratings (Fitch) and DBRS, i.e. the ECAIs operating in the securitisation market at the time. The mapping from 2010 was based on similar considerations and took into account both qualitative and quantitative factors.

2.1.5 Specific considerations on the mapping applicable to smaller ECAIs

15. Those ECAIs that entered 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 in accordance with the CRR (e.g. risk weighting calculation).

16. One significant difference between the larger ECAIs and the smaller 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 larger 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 ECAIs with insufficient historical performance data 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 of the CRR. However, given the choice of mapping the securitisation ratings of ECAIs with historical performance data without relying on a systematic mapping methodology which is fully based on securitisation ratings' historical performance and on a securitisation-specific default benchmark, the mappings proposed for ECAIs with insufficient historical performance data are aligned with those allocated to ECAIs with historical performance data.

2.1.6 Long-term versus short-term ratings / SA versus 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 RBM 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.

2.1.7 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 as a result of the new Basel Securitisation Framework and its incorporation into the CRR.

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

2.1.8 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 follow fully 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 and the 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 the 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.

25. In addition, the EBA concluded that in the absence of comparable quantitative data, it is not possible to adapt the same element of clarity on the results driven by a quantitative approach that was taken for the corporate mapping under Article 136. In the ITS detailing the approach taken under the mandate relating to Article 136, the mapping that will apply from 2019 onwards is specified in order to provide clarity of the results of the quantitative methodology. For the securitisation mapping, in order to ensure the same legal clarity, and in the absence of a quantitative methodology, the mapping will apply until the EBA re-submits the ITS.

3. EBA FINAL 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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laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for structured finance in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council

(Text with EEA relevance)

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 amending Regulation (EU) No 648/2012[5], and in particular Article 270 thereof,

Whereas:

(1) Article 270 of Regulation (EU) No 575/2013 requires the specification for all external credit assessment institutions (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 of the European Parliament and of the Council[6] or a central bank issuing credit ratings which are exempt from the application of that Regulation.

(2) Certain similar terms and concepts used in Regulation (EC) No 1060/2009 and in Regulation (EU) No 575/2013 can be the subject of confusion. 'Credit assessment' is a term used under Regulation (EU) No 575/2013 to refer both to the 'labels' of the different categories of ratings by ECAIs, and to the assignment of one such rating to a particular item. However, points (h) and (a) of Article 3(1) of Regulation (EC) No 1060/2009 clearly distinguish between these two concepts with the use of the terms 'rating category' and 'credit rating', respectively. 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.

(3) 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 that credit rating has been issued or has been endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009. Further, point (b) of Article 268 of Regulation (EU) No

[5] OJ L 176, 27.06.2013, p.1.

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

575/2013 makes use of a credit rating of an ECAI conditional on the ECAI having published the procedures, methodologies, assumptions and the key elements underpinning the assessments, 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. Therefore, this Regulation should only provide specification of the correspondence of the credit assessments of ECAIs to the credit quality steps set out in Chapter 5 of Regulation (EU) 575/2013 ('mapping') for those rating categories to securitisation positions that meet all of the above conditions.

(4) In accordance with the requirements of Article 270 of Regulation (EU) No 575/2013, mappings of credit ratings for securitisation positions should give consideration to quantitative factors (e.g. default and loss rates and the historical performance of credit ratings) as well as qualitative factors (range of transactions, methodologies and meaning of rating categories). Nevertheless, it should be noted that the securitisation credit ratings apply to a wide range of transactions, which have historically performed in a materially heterogeneous manner during the 2007-2009 crisis. Further, as a result of the crisis, both ECAIs' methodologies and the EU regulatory approach to securitisation are under ongoing changes. Since then discussions ensue also at the international level, with which the Union regulatory framework should be consistent, in order to avoid disruption to the securitisation market. Based on these considerations it is necessary to emphasize the qualitative aspects of the analysis of available quantitative data.

(5) Within the context of a qualitative analysis, in order to ensure an objective and consistent determination of the mapping as required by Article 270 of Regulation (EU) No 575/2013, and with a view to ensuring a smooth transition for the market, it is necessary to rely on the mapping of credit assessments to credit quality steps that were issued in 2006 by the Committee of the European Banking Supervisors (CEBS) under the previous regulatory regime. Those mappings applied to ECAIs issuing securitisation ratings at that time were not only based on a quantitative mapping methodology but also on historical evidence relating to the performance of credit ratings prior to the financial crisis. Those mappings had been designed 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.

(6) New ECAIs, that have entered the securitisation market after the development of the mappings under the previous regulatory regime, have not assigned a sufficient number of ratings for the historical performance of those ratings to be assessed with statistical confidence. Nevertheless, it is necessary to extend to new ECAIs the mapping of credit assessments to credit quality steps that is assigned to incumbent ECAIs in order to strike the right balance between developing a prudent mapping for all ECAIs and avoiding causing unduly material competitive disadvantages.

(7) Article 270 of Regulation (EU) No 575/2013 refers to the development of mappings regarding the credit quality steps set out in Chapter 5 of Title II of Part Three of the Regulation, which is entitled 'Securitisation'. Given that separate credit quality steps apply for the calculation of risk-weighted exposure amounts under the

Standardised Approach for securitisation under Article 251 of Regulation (EU) No 575/2013, which are different from those applying to securitisation positions under the Ratings Based Method referred to in Article 261 of that Regulation, this Regulation should provide for separate mappings for the Standardised Approach and the Ratings Based Method.

(8) Article 270 of Regulation (EU) No 575/2013 refers to the development of mappings regarding the credit quality steps set out in Chapter 5 of Title II of Part Three of the Regulation, which is entitled 'Securitisation'. That Chapter in both Article 251 and Article 261 includes credit quality steps for re-securitisation positions. As a result, the securitisation framework of Regulation (EU) No 575/2013 also covers re-securitisation positions. Therefore the mappings laid down in this Regulation should cover credit ratings assigned to both securitisation and re-securitisation positions.

(9) Following the completion of the ongoing regulatory reforms relating to capital requirements applicable to securitisations, and with the aim of considering new historical evidence covering a sufficiently long post-crisis data history, the mappings of this Regulation should be updated where available information could contribute to an improved design of a fully consistent and objective quantitative mapping methodology, in accordance with points (b) and (c) of Article 270 of Regulation (EU) No 575/2013, and with increasing consideration of quantitative evidence.

(10) Given the emphasis on the qualitative aspects of the analysis of the performance of securitisation ratings, it is necessary to regularly monitor the data reported, with a view to considering the merit of reviewing the mappings assigned, where default of securitisation positions are observed, and with the view to consider amending the determination of the mappings, as appropriate, in accordance with point (d) of Article 270 of Regulation (EU) No 575/2013.

(11) Revised versions of this Regulation should provide mappings for new ECAIs established after the publication of this Regulation, where those ECAIs provide credit ratings for securitisation or re-securitisation positions.

(12) This Regulation is based on the draft implementing technical standards submitted by the European Supervisory Authority (European Banking Authority) to the Commission.

(13) The European Banking Authority has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[7],

HAS ADOPTED THIS REGULATION:

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

Article 1

Mapping tables under the Standardised Approach

The correspondence of the rating categories of each ECAI for securitisation positions subject to the Standardised Approach with the credit quality steps under the Standardised Approach set out in Table 1 of Article 251 of Regulation (EU) No 575/2013 is that set out in Annex I.

Article 2

Mapping tables under the Ratings Based Method

The correspondence of the rating categories of each ECAI for securitisation positions subject to the IRB approach with the credit quality steps set out in table 4 of Article 261(1) of that Regulation is that set out in Annex II.

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 I – Mapping table under the Standardised Approach as referred to in Article 1

Credit quality step	1	2	3	4	All other
ARC Ratings S.A.					
Medium and Long-Term Issues	AAA$_{SF}$ to AA-$_{SF}$	A+$_{SF}$ to A-$_{SF}$	BBB+$_{SF}$ to BBB-$_{SF}$	BB+$_{SF}$ to BB-$_{SF}$	Below BB-$_{SF}$
Short-Term Issues	A-1+$_{SF}$, A-1$_{SF}$	A-2$_{SF}$	A-3$_{SF}$		Below A-3$_{SF}$
Axesor SA					
Structured finance rating scale	AAA$_{(sf)}$ to AA-$_{(sf)}$	A+$_{(sf)}$ to A-$_{(sf)}$	BBB+$_{(sf)}$ to BBB-$_{(sf)}$	BB+$_{(sf)}$ to BB-$_{(sf)}$	Below BB-$_{(sf)}$
Creditreform Ratings AG					
Long-term rating scale	AAA $_{sf}$, AA- $_{sf}$	A+ $_{sf}$ to A- $_{sf}$	BBB+ $_{sf}$ to BBB- $_{sf}$	BB+ $_{sf}$ to BB- $_{sf}$	Below BB- $_{sf}$
DBRS Ratings Limited					
Long-term obligations rating scale	AAA (sf) to AA (low) (sf)	A (high) (sf) to A (low) (sf)	BBB (high) (sf) to BBB (low) (sf)	BB (high) (sf) to BB (low) (sf)	Below BB (low) (sf)
Commercial paper and short-term debt rating scale	R-1 (high) (sf) to R-1 (low) (sf)	R-2 (high) (sf) to R-2 (low) (sf)	R-3 (sf)		Below R-3 (sf)
FERI EuroRating Services AG					
Rating scale	AAA$_{sf}$ to AA-$_{sf}$	A+$_{sf}$ to A-$_{sf}$	BBB+$_{sf}$ to BBB-$_{sf}$	BB+$_{sf}$ to BB-$_{sf}$	Below BB-$_{sf}$
Fitch Ratings					
Long-term issuer credit ratings scale	AAAsf to AA-sf	A+sf to A-sf	BBB+sf to BBB-sf	BB+sf to BB-sf	Below BB-sf
Short-term rating scale	F1+sf, F1sf	F2sf	F3sf		Below F3sf
Japan Credit Rating Agency Ltd					
Long-term issuer ratings scale	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	Below BB-
Short-term issuer ratings scale	J-1+, J-1	J-2	J-3		Below J-3
Kroll Bond Rating Agency					

Long-Term Credit	AAA (sf) to AA- (sf)	A+ (sf) to A- (sf)	BBB+ (sf) to BBB- (sf)	BB+ (sf) to BB- (sf)	Below BB- (sf)
Short-Term Credit	K1+ (sf), K1 (sf)	K2 (sf)	K3 (sf)		Below K3 (sf)
Moody's Investors Service					
Global long-term rating scale	Aaa(sf) to Aa3(sf)	A1(sf) to A3(sf)	Baa1(sf) to Baa3(sf)	Ba1(sf) to 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	AAA (sf) to AA- (sf)	A+ (sf) to A- (sf)	BBB+ (sf) to BBB- (sf)	BB+ (sf) to BB- (sf)	Below BB- (sf)
Short-term issuer credit ratings scale	A-1+ (sf), A-1 (sf)	A-2 (sf)	A-3 (sf)		Below A-3 (sf)
Scope Rating AG					
Global long-term rating scale	AAA_{SF} to $AA-_{SF}$	$A+_{SF}$ to $A-_{SF}$	$BBB+_{SF}$ to $BBB-_{SF}$	$BB+_{SF}$ to $BB-_{SF}$	Below $BB-_{SF}$
Global short-term rating scale	$S\text{-}1+_{SF}$, $S\text{-}1_{SF}$	$S\text{-}2_{SF}$	$S\text{-}3_{SF}$		$S\text{-}4_{SF}$

ANNEX II – Mapping table under the Ratings Based Method as referred to in Article 2

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+$_{SF}$ to 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$_{SF}$									Below A-3$_{SF}$
Axesor SA												
Structured finance rating scale	AAA$_{(sf)}$	AA+$_{(sf)}$ to AA-$_{(sf)}$	A+$_{(sf)}$	A$_{(sf)}$	A-$_{(sf)}$	BBB+$_{(sf)}$	BBB$_{(sf)}$	BBB-$_{(sf)}$	BB+$_{(sf)}$	BB$_{(sf)}$	BB-$_{(sf)}$	Below BB-$_{(sf)}$
Creditreform Ratings AG												
Long-term rating scale	AAA $_{sf}$	AA+ $_{sf}$ to AA- $_{sf}$	A+ $_{sf}$	A $_{sf}$	A- $_{sf}$	BBB+ $_{sf}$	BBB $_{sf}$	BBB- $_{sf}$	BB+ $_{sf}$	BB $_{sf}$	BB- $_{sf}$	Below BB- $_{sf}$
DBRS Ratings Limited												
Long-term obligations rating scale	AAA (sf)	AA (high) (sf) to AA (low) (sf)	A (high) (sf)	A (sf)	A (low) (sf)	BBB (high) (sf)	BBB (sf)	BBB (low) (sf)	BB (high) (sf)	BB (sf)	BB (low) (sf)	Below BB (low) (sf)
Commercial paper and short-term debt rating scale	R-1 (high) (sf) to R-1 (low) (sf)	R-2 (high) (sf) to R-2 (low) (sf)	R-3 (sf)									Below R-3 (sf)
FERI EuroRating Services AG												
Rating scale	AAA$_{sf}$	AA+$_{sf}$ to	A+$_{sf}$	A$_{sf}$	A-$_{sf}$	BBB+$_{sf}$	BBB$_{sf}$	BBB-$_{sf}$	BB+$_{sf}$	BB$_{sf}$	BB-$_{sf}$	Below

		AA-$_{sf}$										BB-$_{sf}$
Fitch Ratings												
Long-term issuer credit ratings scale	AAAsf	AA+sf to 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									Below Bsf
Japan Credit Rating Agency Ltd												
Long-term issuer ratings scale	AAA	AA+ to AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	Below BB-
Short-term issuer ratings scale	J-1+, J-1	J-2	J-3									Below J-3
Kroll Bond Rating Agency												
Long-Term Credit	AAA (sf)	AA+ (sf) to 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 Credit	K1+ (sf), K1 (sf)	K2 (sf)	K3 (sf)									Below K3 (sf)
Moody's Investors Service												
Global long-term rating scale	Aaa(sf)	Aa1(sf) to 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	AAA (sf)	AA+ (sf) to 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 issuer credit ratings scale	A-1+ (sf), A-1	A-2 (sf)	A-3 (sf)									Below A-3 (sf)

	(sf)

Scope Rating AG												
Global long-term rating scale	AAA$_{SF}$	AA+$_{SF}$ to 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$_{SF}$

4. Accompanying documents

4.1 Cost-Benefit Analysis / Impact Assessment

4.1.1 Introduction

Draft regulatory and implementing technical standards (RTS and ITS) have to be accompanied by an impact assessment according to Article 10(1) of the EBA Regulation[8].

Article 270 of the CRR mandates the EBA to develop ITS to determine, for all 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.

4.1.2 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, were 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 the definition of the credit quality of banks' exposures, where applicable, on the basis of ECAIs' credit risk ratings. The credit

[8] Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

quality 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' (CQS). 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 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 the EBA technical standards (i.e. EU regulations), other 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 smaller ECAIs to gain 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, being S&P, Moody's, Fitch 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 analysis of each of the relevant ECAIs, the CEBS reached the conclusion that, as can be seen in Table 1 below, the same rating grades (e.g. the same rating grades, issued by the different four ECAIs) should be mapped to the same credit quality steps.

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	1	A-1+, A-1	P-1	F1+, F1	R-1 High, Middle, Low

positions (SA)	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 consider 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 also be given to the CRR mandate to the 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 the 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 referring to the 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 in which historical performance is either not available (e.g. for ECAIs that have only recently entered 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 focused on ratings' historical performance as systematically collected within the CEREP dataset managed by the ESMA, and in particular on the ratings issued by the ECAIs with most data available, being 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[9]. Article 8 of the mentioned RTS allows ECAIs to submit data on events of default according to their own specific definitions of default and, in addition, to potentially capture material impairment or similar events as deemed appropriate.

The informal exchange of information between ECAIs with historical performance data and the EBA has confirmed that the binary variable aimed at capturing default within the CEREP dataset captures different events in relation to the 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 9 in the annex to the Impact Assessment for a representation of the three ECAIs' 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', the meaning of the rating grade 'C' is defined as an event very close, although not identical to, an event of default.

Following the above considerations, the EBA has carried out an analysis of ratings' historical performance for these four ECAIs by adopting the following default definitions:

[9] https://cerep.esma.europa.eu/cerep-web/homePage.xhtml.

- 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 the three-year CDR 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 that 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[10], 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 that the CEBS had considered, in 2006, when proposing the mappings reported in Table 1 above.

Data taken for CEREP were cleaned. This included categorising the instances of rating withdrawals into whether such ratings constitute an event of default, based on the reason given for the rating withdrawal. The EBA found a lack of clarity relating to the reasons given for rating withdrawals within CEREP in many instances. Therefore, the EBA has conducted such a data-cleansing exercise on a conservative basis. Such a methodology may differ from other methods of data cleansing.

As part of its analysis of performance history, one specific matter that the EBA encountered was the lack of a rating grade representing default established by Moody's. Given this analytical limitation the EBA sought a proxy which could represent Moody's rating performance in transitioning to default. The EBA considered the following as proxies:

- use of the CEREP binary default variable;
- a downgrade to 'C' rating grade.

Following the analysis the EBA evaluated that both proposals had their disadvantages. The EBA consequently concluded that neither of the proxies' definitions of default was sufficiently comparable with those of other ECAIs analysed and, therefore, did not sufficiently replicate transitions to default appropriately compared with other ECAIs analysed. The EBA therefore cannot consider its analysis in this matter to be sufficiently comparable and makes its impact assessment analysis on this matter in parallel.

Table 2 below illustrates the average three-year CDR, per rating grade and ECAI, computed over the period July 2001 to January 2010. In the case of Moody's a separate but similar analysis had

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

been made as its rating methodology and in particular its rating scale lacks a rating grade representing default. Please see footnote 9 for further details and the separate analysis.

Table 2 Three-year default rates of all structured finance ratings per rating grade issued by ECAIs with historical performance data over the period 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[11]	Rating 'D' not available for Moody's									
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

It should be noted that, at this cost-benefit analysis stage, the EBA has not undertaken any form of data review for ensuring the robustness of the data used. Should a quantitative approach be taken, the EBA notes that an audit of the data input into a quantitative framework should be performed prior to the finalisation of mappings, in order to provide assurance over the robustness of the data used.

Two different outcomes should be highlighted:

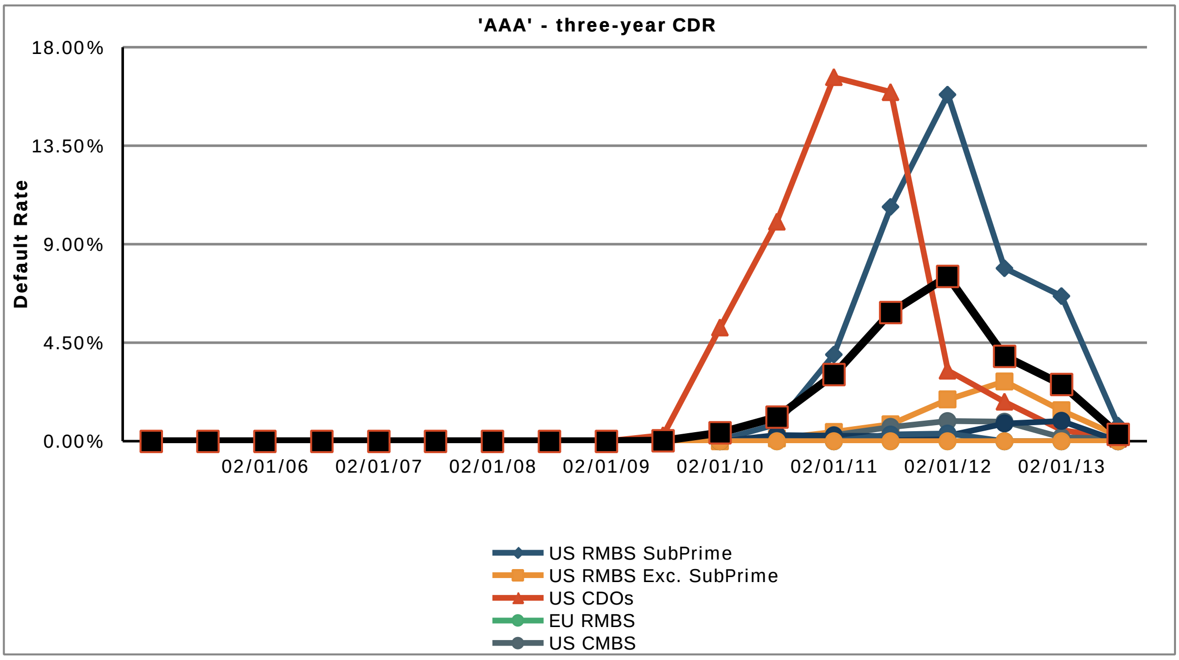
- the resulting default rates, across rating grades and ECAIs, appear to be very high; and
- despite the identification of a broadly consistent event of default, a substantial degree of disparity appears to exist in the default rates related to any given rating grade across the four ECAIs.

[11] Given the lack of a rating grade representing default in Moody's rating methodology (i.e. a rating grade 'D') the EBA computed for Moody's transition rates to the rating grade 'C', the lowest rating category available for Moody's. This resulted in the following figures: Aaa (2.2%), Aa (17.5%), Aaa/Aa (5.5%), A (18.2%), Baa (24.4%), Ba (29.5%), B (38.6%), Caa (41.2%) and Ca (68.5%).

The EBA is aware that migration rates to the rating grade 'C' (for Moody's) should not be compared with default rates computed on the basis of the rating grade 'D' (as was performed for S&P, Fitch and DBRS). Downgrades to the rating grade 'C' are, by definition, more likely events than default events, which explains the higher default rates exhibited by Moody's compared with other rating agencies. These migration rates provide, however, a useful illustration of the different relative performance of Moody's rating grades (i.e. Moody's AAA versus Moody's AA, etc.) and, as outlined elsewhere in this analysis, confirm even in the case of Moody's ratings portfolio the materially different relative performance of different asset classes within the securitisation market (e.g. US CDOs versus EU RMBS). Moody's has shared with the EBA default rates computed on the basis of a proxy 'D' rating grade elaborated by Moody's, and showed default performance comparable to that of S&P and Fitch, as measured by its 'D' rating grade. The EBA does not publish Moody's proxy 'D' performance given that such a category is not part of Moody's rating scale and the processes surrounding such a calculation is, as far as the EBA is aware, not subject to ESMA supervision.

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 illustrated in Figure 1 and Table 3, respectively. The output, below, excludes ratings issued by DBRS given the materially different magnitude of default rates resulting for that ECAI.

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



Source: CEREP data, EBA calculations

Table 3 Three-year CDR per asset class (July 2001 to January 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 3 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 ECAIs with historical performance data contributes to the high average CDRs reported in Table 3 ('All SF' default rates are indicated 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 4 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 4 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 the reference default performance of each existing rating grade (e.g. 'AAA' rating grade, 'AA' rating grade) against which to map the 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 CDR proposed by the BCBS as reference default values for the non-structured finance credit ratings (see Table 16 in the annex to the 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 CDR. Under this option, the EBA considered benchmarking ratings' historical performance against two alternative benchmarks:

- the long-term average three-year CDRs computed over the pool of ratings issued by S&P, Moody's and Fitch over the 2000–2013 timespan, i.e. the 'All SF' figures reported in Table 3 (first row); and
- the 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 4 (first row).

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

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

The EBA assessed and considered both advantages and disadvantages of the two alternative approaches (option 1 and option 2), in terms of impacts and implications of the respective proposals, as summarised in Table 5 and Table 6 below. **Option 2 was chosen for inclusion in the draft ITS.**

Table 5 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 are likely to have 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 12 and Table 13 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, results 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 need to be 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 6 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 are available

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

- ARC Ratings S.A.;
- Axesor SA;
- Creditreform Rating AG;
- FERI EuroRating Services AG;
- Japan Credit Rating Agency Ltd;
- Kroll Bond Rating Agency; and
- Scope Ratings AG.

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 ECAIs 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 ECAIs with historical performance data (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 7 below. **Option B was chosen for inclusion in the draft ITS.**

Table 7 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 the lack of empirical data on the basis of which the performance of the ratings issued by an ECAI can be assessed. 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.	a) A conservative adjustment based on a quantitative (statistical) methodology would be feasible only if adopted in conjunction with Option 1 for the general approach to the mapping of ratings issued by ECAIs with historical performance data, as a securitisation-specific set of benchmark default rates would be needed. b) A conservative adjustment justified by data availability concerns, either based on a quantitative methodology or on supervisory judgement, would not be a commensurate treatment for ECAIs with insufficient historical performance data given the adoption, for ECAIs with historical performance data, of mappings that are not systematically based on historical data.

Table 8 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 smaller ECAIs. This would not, therefore, incentivise smaller ECAIs to provide more ratings. b) This approach would lead to a scenario whereby a specific securitisation rating grade (e.g. 'AAAsf') of a given smaller 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, that a given rating grade, although not targeting any specific default probability, should represent comparable credit quality across asset classes and across rated entities/products.

4.1.3 Annex to the Impact Assessment

Table 9 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 10 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 11 Rating grade definitions for ARC Ratings S.A., Axesor SA, Creditreform Ratings AG, FERI EuroRating Services AG, Japan Credit Rating Agency Ltd, Kroll Bond Rating Agency, Scope Rating AG

ARC Ratings S.A.	Axesor SA	Creditreform Ratings AG	FERI EuroRating Services AG	Japan Credit Rating Agency Ltd	Kroll Bond Rating Agency	Scope Rating AG

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.	Maximum credit quality Excellent company's capacity to meet its payment obligations. It is reliable with regards to timely payment of future financial obligations.	Best rating, lowest risk for investors.	Lowest default risk	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 high level It maintains a high capacity level to meet its credit obligations, even in the event of any potential changes in the financial environment.	Very good rating, very low risk for investors.	Very low default risk	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	High level The company has strong capacity to meet its credit obligations. However, this rating may deteriorate in the event of moderately adverse changes in the financial	Good rating, low risk for investors.	Low default risk	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.

	obligor’s capacity to meet its financial commitments on the obligation remains quite strong.	environment.					
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.	Medium/high level More than adequate capacity to meet its financial obligations. However, this capacity has a higher probability to deteriorate in the mid-long term than in higher categories.	Highly satisfactory rating, low to medium risk for investors.	Moderate default risk	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.	Medium level Adequate capacity to meet its financial obligations.	Satisfactory rating, medium risk for investors	Elevated default risk	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	Medium/low level	Adequate rating, higher	High default risk	A low level of certainty to honour the financial	Determined to be of very low quality with high risk	Ratings at the B level reflect an opinion of very

	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.	Although its capacity to meet payment obligations shows no difficulties at present, it may not be maintained over a long period of time.	risk for investors		obligations, giving cause for concern.	of loss due to credit-related events. These issuers and obligations contain many fundamental shortcomings that create significant credit risk.	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.	Low level Low capacity to meet its financial obligations. It relies on a favourable financial environment.	Barely adequate rating, high to very high risk for investors.	Very high default risk	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	Poor credit quality Its capacity to repay its financial obligations is	Barely adequate rating, high to very high risk for investors.	Highest default risk	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

	not showing payment delays at present, due to its own endogenous limitations, notwithstanding the outside conditions facing the obligor.	uncertain. High probability of failure to meet some of its payments. High sensitivity to financial environment changes.					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.	Very poor credit quality High risk of stopping or interrupting payments.	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.	Default status The company is in default, has payment delays, has been declared insolvent or is currently undergoing insolvency proceedings. There is a possibility of default on its financial obligations.	Insufficient rating, insolvency, negative characteristics. A default of a company or bond rating occurs if: the company will probably not be able to fulfil its payment obligations to banks or other debts investors. • Debtors or the company files for insolvency	The following events constitute a debt default under Feri's definition and will be marked with a "D" Default. 'D' ratings indicate an issuer that in Feri's opinion (i) will probably not be able to fulfill its payment obligations to banks or other debts investors or (ii) missed or delayed disbursements of a contractually–obligated interest or principal	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. This includes • the state where JCR judges it is impossible that principal and interest payments of the financial obligations can be	KBRA defines default as occurring if: • There is a missed interest or principal payment on a rated obligation which is unlikely to be recovered; • The rated entity files for protection from creditors, is placed into receivership or is closed by regulators such	Ratings at the D level refer to credit default situations.

• 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.	payment (excluding missed payments cured within a contractually allowed grace period) or (iii) has entered into a distressed exchange or (iv) has entered into bankruptcy, filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business. In addition, with respect to structured finance ratings, ratings in the 'CC' category and below are considered by Feri to be materially impaired.	made as agreed due to filing of a petition for legal proceedings such as Bankruptcy, • Corporate Reorganization, Civil Rehabilitation, or Special Liquidation proceedings.	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 three-year horizon default rate (also called short-term three-year default rate)

E.g. three-year default rate related to January 2002 cohort and over the January 2002 to July 2004 three-year horizon (six semesters):

- All tranches existing at January 2002 rated 'AAA' constitute the 'AAA' cohort for January 2002. Similar reasoning for other rating grade cohorts of January 2002 ('AA', 'A', etc.).
- All tranches already rated 'D' (for S&P and Fitch) and 'C' (for Moody's) at January 2002 are excluded from the January 2002 cohort default rate computations.
- All tranches of the 'AAA' cohort of January 2002 that are downgraded to 'D' (for S&P and Fitch) and 'C' (for Moody's) at any point in time during the Jan 2002 to July 2003 window count as default events. Similar reasoning for other rating grade cohorts of January 2002 ('AA', 'A', etc.). If a given tranche is downgraded to 'D' (or 'C' for Moody's) and then re-upgraded before the end of the January 2002 to July 2004 window, that tranche still counts as a default event.
- Within the 'AAA' cohort of January 2002 all tranches whose rating is withdrawn before the end of the January 2002 to July 2004 window count as 0.5 in the denominator of the 'AAA' Jan 2002 cohort default rate. Similar reasoning for other rating grade cohorts of January 2002 ('AA', 'A', etc.).

Table 12 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	Not evaluated, Moody's rating scale does not incorporate 'D' rating				
Fitch	CQS3	CQS4	CQS4	CQS5	CQS5
DBRS	CQS2	CQS2	CQS2	CQS2	CQS3

Table 13 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	Not evaluated, Moody's rating scale does not incorporate 'D' rating				
Fitch	CQS2	CQS3	CQS3	CQS4	CQS5

ECAI / Rating	AAA/AA	A	BBB	BB	B & below
DBRS	CQS1	CQS1	CQS1	CQS1	CQS2
Current (CEBS) mapping	CQS1	CQS2	CQS3	CQS4	CQS5

Table 14 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	Not evaluated, Moody's rating scale does not incorporate 'D' rating				
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 of all the classes underperformed the most 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) was published in December 2014. The new framework prioritised 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, which was 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. to avoid conflicts of interest, ongoing monitoring of credit ratings and rating methodologies 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:

- the 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 Commission has adopted, 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 the disclosure of transaction documents.

Market-driven initiatives promoting labels associated with 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 15 Basel benchmark three-year CDRs related to non-structured finance credit ratings

	CQS	Benchmark three-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

4.2 Views of the Banking Stakeholder Group (BSG)

The BSG agreed with the approach taken by the EBA of maintaining the current mappings, in light of the ongoing revision of the European and global frameworks for securitisation (i.e. new Basel securitisation framework published in 2014 for adoption in 2018 and ongoing qualifying securitisation reform). The BSG also argued that the inclusion of an approach based on external ratings within the newly published revision of the Basel securitisation framework, with risk weights different from the current ones, makes a revision of the mapping proposed in these ITS advisable prior to the implementation of the new global framework.

The BSG agreed with the approach of maintaining the current (CEBS) mapping for ECAIs with historical performance data as a transitory measure.

The BSG also agreed with the proposed approach to the mapping of securitisation ratings issued by ECAIs with insufficient historical performance data.

The BSG highlighted that mapping the ratings of the ECAIs with insufficient historical performance data in a harmonised fashion enables them to gain recognition in the rating market and achieves a higher degree of competition, which is one of the main goals of the common market. However, as a possible drawback, the BSG considered that the approach followed by the EBA does not take into account economic and commercial realities, such as (i) the lack of experience of the ECAIs with insufficient historical performance data, and (ii) the fact that issuers of securities might require only ratings from ECAIs with insufficient historical performance data once they have disregarded the possibility of obtaining a rating from ECAIs with historical performance, for commercial, methodological or other reasons. For these reasons the BSG considers that the degree of confidence that one can place on the ratings of the smaller and larger ECAIs is not equivalent.

The BSG did not foresee any adverse market implication arising from the different approaches adopted, respectively, for the standardised approach for credit risk and the securitisation framework.

4.3 Feedback on the public consultation and on the opinion of the BSG

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

The consultation period lasted for three months and ended on 7 August 2015. Five responses were received, of which three were published on the EBA website.

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

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

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

Summary of key issues

Respondents were generally supportive of the EBA proposals, and no material objections were received.

Respondents acknowledged the need to adopt a qualitative approach to the mapping of ECAIs' securitisation ratings at this point in time. The EBA did not receive any responses calling for the adoption, at this point in time, of a more quantitative approach.

The degree to which respondents expressed a view to maintain the qualitative approach in the longer term varied, from those opining that it should be a temporary measure before adopting a more quantitative mapping approach, to those seeking this to be a long-term position. The latter view was advocated with reference to, in particular, ECAIs with insufficient historical performance data. Respondents preferring a shift towards a more quantitative approach noted that such an approach would better account for ECAIs' performance and would differentiate to a larger extent between the ECAIs, recognising to a higher degree the different methodologies between the ECAIs.

Respondents further agreed with the EBA's proposed approach of equal treatment of all ECAIs, irrespective of the availability of data on historical performance. They noted that this would create a level playing field in the market and would reduce complexity. As a minor concern, however, one respondent noted that there may be drawbacks with this approach given the lack of experience of ECAIs without historical performance data and commercial reasons driving the use of small ECAIs.

A number of respondents sought clarification and detail on the future status of the mapping procedure, particularly on the EBA's intended review of securitisation rating mappings by 2018 and on the monitoring process in the interim as to whether or not the assigned mappings remain appropriate. Respondents commented that given that changes may be made to these mappings in the future, investors may hold some reservations as to the stability of the mappings over the longer term and, consequently, over the capital costs of their investments in the longer term. A possible consequence of this is that investors may be reluctant to invest in securitisation instruments.

There was a divergence of views as to whether respondents foresaw any adverse market implication 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). Respondents that expressed an opinion commented that a differentiated treatment between the standardised approach and securitisation mappings creates a two-tier system of ECAIs and strongly advocated a consistent approach between the two mappings. However, one respondent acknowledged that there could be valid reasons for the differentiated mappings.

A number of comments raised matters concerning other proposed and enacted technical standards, notably those on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013 (under the standardised approach) and the Liquidity Coverage Ratio Delegated Act (Regulation (EU) 2015/61).

The EBA's response

Regarding respondents' request for the clarification and detail on the future status of the mapping procedure, the EBA acknowledges the importance of this. However, the mandate given to the EBA under Article 270 of the CRR does not include the requirements and, therefore, does not permit the EBA to specify either the frequency with which the mapping exercise has to be repeated over time or the methodology through which the proposed mappings will be monitored. Furthermore, the current environment of changing regulatory framework on securitisation at global and EU level will lead to a revision to the regulatory capital treatment of securitisation in the CRR, and, as such, it is impossible to give more clarity at this moment.

The EBA notes that in providing for two separate and different mandates the CRR itself recognises differences in the mappings under the credit risk framework and the securitisation framework, respectively. In addition, the EBA also identifies sufficient reasons to justify keeping differentiated approaches to the mapping of securitisation and non-securitisation ratings. However, the EBA wishes to highlight that the EBA's work to map ECAI credit assessments under the standardised approach, as credit risk continues to be ongoing and subject to possible amendments.

Regarding respondents' comments concerning other technical standards, these matters are outside the scope of these ITS, and, therefore, no amendments are made to address them within these ITS. However, the EBA takes note of the issues that were raised and may be addressed elsewhere. For more detail of the EBA's response please refer to the table below.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
Review and monitoring process; long-term mapping	Two respondents recommended that the EBA informs the industry how the process to monitor the appropriateness of assigned mappings would work in practice. It was noted that the scope of these ITS is limited up to 2018. As a result investors may be hesitant in handling the upcoming risk of changes to the mapping. This may have consequences of reluctance in investing in securitisation or using smaller ECAIs.	The EBA acknowledges the importance of monitoring the performance of the assigned mappings and will work on this aspect. However, the Commission mandate (under Article 270 of the CRR) has as its objective the determination of the mapping of each ECAI's credit ratings to corresponding credit quality steps. The mandate does not include the requirements to specify either the frequency with which the mapping exercise has to be repeated over time or the methodology through which the proposed mappings will be monitored.	No amendments.
Level playing field	Two respondents highlighted the importance of creating of a level playing field for all ECAIs through the proposed mapping. This would contribute to greater competition in the market of external ratings.	The EBA notes the comment made and acknowledges the importance of competition in the Single Market. The work of the EBA on the proposed mappings is, however, mostly driven by concerns and objectives related to the risk sensitivity of the prudential framework, the riskiness of the markets in its jurisdiction and to overall financial stability.	No amendments.
Differentiation of different ECAIs	One respondent stated that with all ECAIs being assigned the same mapping, credit ratings may come to be viewed as commodities and, consequently, encourage ratings shopping.	The EBA is cognisant of the risk of ratings shopping arising more generally in the market for external ratings. In the current environment of the changing regulatory framework on securitisation and post-crisis performance and methodologies adjustments, the EBA did not identify compelling reasons to	No amendments.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		modify the existing mappings, which assigns to the ECAIs with a long historical track record a uniform mapping treatment, or to differentiate the treatment of ECAIs without a historical track record. This risk is mitigated by the process in which the performance of securitisation ratings will be regularly monitored. The risk is also mitigated by the fact that mappings will have to be reviewed, at the latest, before the new Basel Securitisation Framework comes into force in January 2018.	
Consistency with a standardised approach for credit risk	Two respondents opined that mappings should be consistent between the standardised approach for credit risk (mapping under Article 136 of the CRR) and the securitisation framework (mapping under Article 270 of the CRR). In particular one respondent opined that supervisory judgement, i.e. a qualitative approach, should be adopted consistently for both. It was noted that the vast majority of ECAIs do not possess the historical default evidence to be fully assessed under a quantitative approach.	Respondents seek amendment in the ITS under Article 136 of the CRR, rather than in these ITS. On the one hand the CRR itself recognises differences in the mappings under both the credit risk framework and the securitisation framework, in that it provides for two separate and different mandates. On the other hand, the EBA identifies sufficient reasons to justify keeping differentiated approaches to the mapping of securitisation and non-securitisation ratings.	No amendments.
Respondent-specific comments			
Terminology of ECAIs	One respondent commented that the wording used to differentiate among ECAIs, including 'incumbent', 'large', small' and 'new' is misleading, not always factually correct and creates two	The EBA acknowledges the lack of clarity in the terminology.	The relevant wording throughout these ITS have been amended to

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	classes of ECAIs, reinforcing the oligopoly on the market.		differentiate between ECAIs with historical performance data and ECAIs with insufficient historical performance data.
Presentation of quantitative data	One respondent commented that the EBA qualitative study made a comparison using the 'C' rating for Moody's, whereas the 'D' rating was used for other ECAIs. This assessment concluded that Moody's ratings were more likely to transition to 'C' than other ECAIs to transition to 'D'. Moody's claim that this is not comparable and not an appropriate comparison.	A Moody's transition to 'C' was used as this was the best available proxy to assess ratings performance, given that a default rating category does not exist within Moody's rating framework. Furthermore, this matter is an argument made by the EBA for why a quantitative approach is not appropriate (at this time). The EBA understands the concern raised by the respondent in presenting analyses using data referencing Moody's 'C' and all other ECAIs' 'D' ratings.	Additional language inserted and presentation of analyses amended to impact the assessment highlighting more clearly that analyses were performed using data referencing Moody's 'C' and all other ECAIs' 'D' ratings.
Mapping tables, rating notches	One respondent pointed out that in the mapping tables: • the rating notches are not explicitly stated; • it appears that rating notches for short-term ratings are stated for some ECAIs but not for others; and • for the 'all other' CQS category the SA mapping table states all rating grades,	The EBA acknowledges the lack of clarity in the proposed mapping tables.	The mapping tables in the Annexes to these ITS have been amended to clearly represent all rating notches falling under each CQS and to ensure consistency under the 'all other' CQS

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	whereas the IRB table refers to 'below' given grades.		category.
LCR Delegated Act	One respondent raised the issue of consistency between SA and IRB, given that the LCR Delegated Act states eligibility for securitisations to qualify as HQLA / Level 2b is CQS 1 in accordance with CRR Article 251 (for SA) or Article 261 (IRB). Whereas under SA, securitisations rated 'AA-' or higher would be eligible, under IRB only 'AAA'-rated securitisations would be eligible. 'AA+' to 'AA-' ratings are mapped to CQS 2 under the IRB mapping table.	This issue is not within the scope of these ITS.	No amendments.
Responses to questions in Consultation Paper EBA/CP/2015/08			
Question 1. **Do you agree with the proposed approach to the mapping of securitisation ratings issued by the incumbent ECAIs?**	Respondents were generally supportive of the EBA proposal. Respondents highlighted that a quantitative assessment does not derive any meaningful information. Respondents noted the systemic impact of significantly increased capital requirements that a quantitative approach would have on investors. Respondents agreed with the EBA proposal for the current need for a qualitative approach, while intending to shift to a more quantitative approach over time. This would account for ECAI performance and would differentiate between the ECAIs, recognising the different methodologies	Respondents in agreement with the EBA-proposed approach.	No amendments.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	between the ECAIs.		
Question 2. **Do you agree with the proposed approach to the mapping of securitisation ratings issued by small/more recent ECAIs?**	Respondents agreed with the approach taken for the mapping of ratings issued by ECAIs with insufficient historical evidence. One respondent opined that the same approach should also be applied to the mapping under the Standardised Approach of the credit risk framework. Particularly as the vast majority of ECAIs do not possess the historical default evidence to be fully assessed under a quantitative approach. The lack of data would not constrain the mapping of smaller ECAIs. Some respondents commented that the proposed approach creates a level playing field in the market. However, one respondent noted that there may be drawbacks with this approach given the lack of experience of ECAIs without historical performance data and commercial reasons driving the use of small ECAIs.	The mapping of credit ratings used under the Standardised Approach of the credit risk framework is not in the mandate of these ITS. In the current environment of the changing regulatory framework on securitisation and post-crisis performance and methodologies adjustments, the EBA did not identify compelling reasons to assign to ECAIs with insufficient historical performance a different treatment from the one assigned to ECAIs with historical performance data.	No amendments.
Question 3. **Do you see any adverse market implications/conceptual drawbacks arising from potentially inconsistent mappings being applied to any given ECAI across the**	Respondents argued that a different treatment of ECAIs with insufficient historical performance data within the mapping under the Standardised Approach of the credit risk framework and the mapping under the securitisation framework creates a two-tier system of ECAIs. This will create a long-term barrier to greater competition in the market of external ratings.	On the one hand the CRR itself recognises differences in the mappings under both the credit risk framework and the securitisation framework in that it provides for two separate and different mandates. On the other hand, the EBA identifies sufficient reasons to justify keeping differentiated approaches to the mapping of securitisation and non-securitisation ratings.	No amendments.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
standardised approach for credit risk (mapping under Article 136 of the CRR) and the securitisation framework (mapping under Article 270 of the CRR)?	One respondent also highlighted that different mappings exist for securitisation ratings under the CRR and Solvency II. A 'AAA' rating would map to CQS 1 under the CRR, whereas under Solvency II it would map to CQS 2. For institutions using the IRB approach there is no conflict with ECAI mapping. Some respondents agreed with the EBA and acknowledged that securitisation instruments are materially different from corporate entities and corporate entities' obligations. These respondents acknowledged that the difference in mapping should not represent a conceptual drawback.	The different approach to the mapping of securitisation ratings under the CRR and Solvency II is established in Level 1 legislation and is not in the mandate of these ITS. While the EBA acknowledges the merit of cross-sector consistency, where not in conflict with other prudential objectives, any review of that approach is exclusively in the remit of the Commission in its capacity as the Level 1 legislator.	