



JC/CP/2018/40

26 October 2018

Consultation Paper

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



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1. Responding to this consultation

The ESAs invite comments on all proposals put forward in this paper.

Comments are most helpful if they:

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

Submission of responses

To submit your comments, click on the 'Send your comments' button on the consultation page on the EBA's website by 31 December 2018. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

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

Data protection

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

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2. Executive Summary

In line with article 136 (1) CRR, the Joint Committee (JC) of the European Supervisory Authorities (ESAs) has previously provided a correspondence ('mapping') between relevant credit assessments of ECAIs and credit quality steps, as set out in Section 2 of Chapter 2 of Title II of Part Three of the CRR, to be used for the determination of capital requirements. The original ITS was adopted on 7 October 2016 by the European Commission as Implementing Regulation (EU) 2016/1799 ('the Implementing Regulation')¹. This Implementing Regulation was subsequently amended on the 7 December 2017, to incorporate mappings for the five new ECAIs, that had been registered or certified after the ESAs submitted the original draft ITS to the Commission², thereby providing in total mappings for 30³ ECAIs.

The JC of the ESAs is required to monitor the existing mappings and has therefore analysed whether the mapping of existing ECAIs remains appropriate. The review has identified that the existing ITS must be updated for 11 ECAIs, either as a result of i) changes in the existing mappings due to an updated assessment of the risk in line with the EBA methodology, or ii) the need to introduce mappings for new credit rating types subsequently introduced by existing ECAIs. This consultation paper therefore consults on changes to i) amendments due to the re-allocation of the credit quality steps (Creditreform Rating AG and European Rating Agency a.s.), and ii) amendments due to changes in credit rating scales/types (AM Best Europe-Rating Services Ltd., BCRA-Credit Rating Agency AD, Capital Intelligence Ratings Ltd, Creditreform Rating AG, CRIF Ratings S.r.l., DBRS Ratings Limited, Fitch Ratings Limited, Moody's Investors Service Ltd, Spread Research, S&P Global Ratings).

Consequently, this consultation paper seeks feedback regarding the proposed mappings for the eleven ECAIs included in the current round of mappings' assessment by the 31 December 2018. Based on feedback received in this consultation, the Joint Committee will finalise and update the current ITS to ensure that the mappings reflect a correct and appropriate assessment of the rating scales of all existing ECAIs.

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

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

² Both amended Implementing Regulations, Commission Implementing Regulation (EU) 2018/634 and Commission Implementing Regulation (EU) 2018/633, have been published in the Official Journal of the European Union on 25 April 2018. The amended draft ITS also removes the reference to the one ECAI for which ESMA withdrew the CRA Registration in March 2017. https://www.esma.europa.eu/sites/default/files/library/esma71-99-376_feri_eurorating_services_credit_rating_agency_registration_withdrawn.pdf

³ The 30 ECAIs referenced here represent the 30 that are present in the draft amended ITS published by the JC of the ESAs on 7 December 2017:

<https://www.eba.europa.eu/documents/10180/2055402/Final+Joint+Revised+Draft+ITS+Mapping+CRR+%28JC+2017+61%29.pdf/f4d9d72c-0507-46a9-9919-69c185a3414e>



3. Background and rationale

The nature of ITS under EU law

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

Background to these revised draft ITS

Use of external credit assessments in the CRR/CRD IV

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

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

ECAIs and relevant external credit assessments

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

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

⁴ 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).

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

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

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

- Amendments due to re-allocation of credit quality steps: Creditreform Rating AG and European Rating Agency, a.s.;
- Amendments due to changes in credit rating scales/types: AM Best Europe-Rating Services Ltd., BCRA-Credit Rating Agency AD, Capital Intelligence Ratings Ltd, Creditreform Rating AG, CRIF Ratings S.r.l., DBRS Ratings Limited, Fitch Ratings Limited, Moody's Investors Service Ltd, Spread Research, S&P Global Ratings.

The revised draft ITS therefore contain draft mappings for the ECAI population featured in the Annex to the draft amended ITS published by the JC of the ESAs on 7 December 2017, namely amended mappings for the 11 ECAIs mentioned above and unchanged mappings for the other 19 ECAIs.

Structure of the ITS

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

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



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

In between the text of the draft ITS that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.



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

of **XXX**

THE EUROPEAN COMMISSION,

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

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms⁷, and in particular the first subparagraph of Article 136(1) thereof,

Whereas:

- (1) Commission Implementing Regulation (EU) 2016/1799⁸ specifies in its Annex III, the correspondence of the relevant credit assessments issued by an ECAI to the credit quality steps set out in Section 2 of Chapter 2 of Title II of Part Three of Regulation (EU) No 575/2013 ('mapping').
- (2) The second subparagraph of Article 136(1) of Regulation (EU) No 575/2013 requires the updating of the mappings for all ECAIs registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council⁹. Similarly, recital 24 of Regulation (EU) 2016/1799 provides for the monitoring of the performance of the mappings contained therein on a continuous basis and implies the revision of the Regulation, as appropriate, where that monitoring identifies changes in the quantitative and qualitative factors underpinning such credit ratings and, by extension, their mappings. As a result, given that, on the one hand, changes have been effected on the quantitative and qualitative factors of the credit assessments of some of the credit ratings agencies for which mappings were provided by Regulation (EU) 2016/1799, and, on the other hand, other credit rating agencies among those have extended their credit assessments to new market segments, resulting in new rating scales and new credit rating types, that Regulation should be amended to provide updated mappings for all registered or certified ECAIs.
- (3) This Regulation is based on the draft implementing technical standards submitted by the European Banking Authority, the European Securities and Markets Authority and

⁷ OJ L 176, 27.6.2013, p. 1.

⁸ Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 275, 12.10.2016, p. 3).

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



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the European Insurance and Occupational Pensions Authority jointly (the European Supervisory Authorities) to the Commission.

- (4) The European Supervisory Authorities have conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council¹⁰; the opinion of the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council¹¹; and the opinion of the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council¹².
- (5) Implementing Regulation (EU) 2016/1799 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1
Amendment to Regulation (EU) 2016/1799

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

Article 2
Entry into force

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

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

Done at Brussels,

¹⁰ 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).

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

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



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*For the Commission
The President*

Jean-Claude Juncker



ANNEX

ANNEX III

Mapping tables for the purposes of Article 16

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



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



<i>Capital Intelligence Ltd</i>						
International long-term issuer rating scale	AAA, AA	A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
International long-term insurer financial strength rating scale	AAA, AA	A	BBB	BB	B	C,RS, SD, D
International short-term issuer rating scale	A1+	A1	A2, A3	B, C, RS, SD, D		
International short-term issue rating scale	A1+	A1	A2, A3	B, C, D		
International short-term insurer financial strength rating scale	A1+	A1	A2, A3	B, C, RS, SD, D		
<i>Cerved Rating Agency S.p.A.</i>						
Corporate long-term rating scale	A1.1, A1.2, A1.3	A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
<i>Creditreform Rating AG</i>						
Long-term rating scale	AAA, AA	A	BBB	BB	B	B, C, SD, D
<i>CRIF Ratings S.r.l.</i>						
Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D1S, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, DS



Short-term issuer rating scale	IG-1	IG-2	SIG-1, SIG-2, SIG-3, SIG-4
Short-term issue rating scale	IG-1	IG-2	SIG-1, SIG-2, SIG-3, SIG-4

Dagong Europe Credit Rating

Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	A-1		A-2, A-3	B, C, D		

DBRS Ratings Limited

Long-term obligations rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale	R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		
Financial Strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, R

Egan-Jones Ratings Co.

Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	A-1+	A-1	A-2	A-3, B, C, D		

Euler Hermes Rating GmbH

Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, SD, D
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European Rating Agency, a.s.



Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term rating scale	S1		S2	S3, S4, NS		
<i>EuroRating Sp. z o.o.</i>						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
<i>Fitch Ratings</i>						
Long-term issuer default ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations - Long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Long-term international IFS ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Derivative counterparty ratings scale	AAA dcr, AA dcr	A dcr	BBB dcr	BB dcr	B dcr	CCC dcr, CC dcr, C dcr
Short-term rating scale	F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS ratings scale	F1+	F1	F2, F3	B, C		
<i>GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH</i>						
Global long-term rating scale	AAA, AA		A, BBB	BB	B	CCC, CC, C, D
<i>HR Ratings de México, S.A. de C.V.</i>						



Global long-term rating scale	HR AAA(G)/ HR AA(G)	HR A(G)	HR BBB(G)	HR BB(G)	HR B(G)	HR C(G)/HR D(G)
Global short-term rating scale	HR+1(G)/ HR1(G)	HR2(G)	HR3(G)	HR4(G), HR5(G), HR D(G)		
<i>ICAP Group S.A</i>						
Global long-term rating scale		AA, A	BB, B	C, D	E, F	G, H
<i>INC Rating Sp. z o.o.</i>						
Long-term issuer credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
<i>Japan Credit Rating Agency Ltd</i>						
Long-term issuer ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, LD, D
Long-term issue ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer ratings scale	J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit ratings scale	J-1+	J-1	J-2	J-3, NJ, D		
<i>Kroll Bond Rating Agency</i>						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	K1+	K1	K2, K3	B, C, D		
<i>modeFinance S.r.l.</i>						



Global long-term rating scale	A1,A2	A3	B1	B2	B3	C1, C2, C3, D
<i>Moody's Investors Service</i>						
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Global short-term rating scale	P-1	P-2	P-3	NP		
<i>Rating-Agentur Expert RA GmbH</i>						
International credit rating scale	AAA, AA	A	BBB	BB	B	CCC,CC, C, D, E
International reliability rating scale	AAA, AA	A	BBB	BB	B	CCC,CC, C, D, E
<i>Scope Ratings AG</i>						
Long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC,C, D
Short-term rating scale	S-1+	S-1	S-2	S-3, S-4		
<i>Spread Research</i>						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Global short-term rating scale	SR0		SR1, SR2	SR3, SR4, SR5, SRD		
<i>S&P Global Ratings</i>						



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Long-term issuer credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Insurer financial strength ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, SD/D, R
Mid-Market Evaluation ratings scale		MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit ratings scale	A-1+	A-1	A-2, A-3	B, C, R, SD/D		
Short-term issue credit ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
<i>The Economist Intelligence Unit Ltd</i>						
Sovereign rating band scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D



5. Accompanying documents

5.1 Draft Cost-Benefit Analysis/Impact Assessment

Procedural issues

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

Problem definition

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

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

The usage of external credit ratings for determining own fund requirements requires a mapping between the credit assessments issued by an ECAI and the Credit Quality Steps (CQS) of the Standardised Approach set out in Section 2 of Chapter 2 of Title II of Part Three of the CRR.

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

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



Objectives

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

The Implementing Regulation provided mapping tables for 26 ECAIs, which covered one central bank and all the CRAs registered or certified in accordance with the CRA Regulation at the time the ESAs started preparing the draft ITS. Since then, ESMA has withdrawn the registration of one CRA and five additional CRAs have been registered or certified in accordance with the CRA. These changes were reflected via the proposed amendments to the original ITS, that were submitted to the Commission on 7 December 2017¹.

The objective of the present revised draft ITS is to amend the Implementing Regulation to include for established ECAIs changes in the mappings that have occurred since the ITS has been adopted on 7 October 2016. The revised draft ITS will therefore register mappings for the current ECAI population (including for the 5 newly established ECAIs), with unchanged mappings for all but the 11 ECAIs that saw their mappings reviewed as part of the mapping review exercise.

Figure 1: ECAIs subject to mapping amendments

ECAI	Amendments to:	
	Credit rating scales/types	Credit Quality Steps Allocation
AM Best Europe-Rating Services Ltd. (AMBERS)	Yes	No
BCRA-Credit Rating Agency AD	Yes	No
Capital Intelligence Ratings Ltd	Yes	No
Creditreform Rating AG	Yes	Downgrade
CRIF Ratings S.r.l.	Yes	No
DBRS Ratings Limited	Yes	No
European Rating Agency, a.s.	No	Upgrade
Fitch Ratings Limited	Yes	No
Moody's Investors Service Ltd	Yes	No
Spread Research	Yes	No
S&P Global Ratings	Yes	No

¹ The amended draft ITS also removes the reference to the one ECAI for which ESMA withdrew the CRA Registration in March 2017. https://www.esma.europa.eu/sites/default/files/library/esma71-99-376_feri_eurorating_services_credit_rating_agency_registration_withdrawn.pdf

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Notwithstanding the principle stated in the previous paragraph, the G-20 conclusions and the Financial Stability Board (FSB) principles for reducing reliance on external credit ratings should also be taken into account. Therefore, although the analysis behind the 'mapping' of each ECAI and its regular monitoring over time should alleviate any mechanistic overreliance of the credit risk rules on external ratings, institutions should be encouraged to use internal ratings rather than external credit ratings, even for the purpose of calculating own fund requirements as a way to reduce overreliance on external credit ratings.

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

Technical options considered

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

The monitoring triggers are based on the quantitative and qualitative factors specified in the Implementing Regulation. Additionally, ECAIs may have extended their credit assessments to new segments and the associated new rating scales and/or new credit rating types will need to be reflected accordingly in the mapping reports.

Quantitative factors to calibrate the mapping are drawn from statistics on the rating activity and the rating performance of ECAIs produced by ESMA (CEREP²), based on the information provided by the ECAIs as part of their reporting obligations³. Currently, the latest CEREP data available cover up to reference date December 2015⁴, therefore effectively setting the cut-off date for the current mapping adequacy exercise.

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

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

³ Article 11(2) of the CRA Regulation.

⁴ ESMA is in the process of implementing a new data reporting framework (European Rating Platform), whereby more up-to-date and extensive information is collected from CRAs. This has caused delays with respect to the typical CEREP release schedule. CEREP migration is currently expected to be finalised by the end of 2018.

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approach, changes in qualitative factors are assigned lower priority with respect to quantitative factors.

The qualitative factors identified in the Implementing Regulation are:

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

Moreover, as noted in recital 26 of the Implementing Regulation, in March 2016 the Commission notified the JC of the ESAs of its intention to endorse the draft ITS⁵ with amendments, which affected the level of conservatism of the mapping. An Opinion was issued by the ESAs rejecting the amendments proposed by the Commission⁶.

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

⁵ <http://www.eba.europa.eu/documents/10180/1269185/Final+Draft+ITS+on+ECAIs%27%20Mapping.pdf/3f4b46bb-825e-4211-b199-519b6b3bf865>

⁶ <http://www.eba.europa.eu/documents/10180/1359456/ESAs+2016+41+%28Joint+Opinion+on+EC+amend+ITS+ECAIs+Mapping+CRR%29.pdf>

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Impact of the review of mapping adequacy for the 11 ECAIs

Costs

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

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

Benefits

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

Overall, these changes will benefit the financial sector by providing it with an accurate and updated picture of the correspondence between their credit assessments by ECAIs and the CQS of the Standardised Approach, which allows the use of those credit assessments for determining own fund requirements. This increases competition in the industry, where certain ECAIs exercise a significant market power⁷.

The analysis performed to arrive at each individual mapping and its regular monitoring over time should contribute to mitigate any mechanistic overreliance of the credit risk rules on external ratings, although due caution should continue to be exercised. This is one of the objectives of the CRR derived from the G-20 conclusions and the FSB principles for reducing reliance on external credit ratings.

Question for Consultation:

Do you agree with the proposed revised draft Implementing Technical Standards?

⁷ The market share is concentrated in three ECAIs that represent around 90% of the market. Market share calculation based on 2015 applicable turnover from credit rating activities and ancillary services in the EU. Please refer to https://www.esma.europa.eu/sites/default/files/library/2016-1662_cra_market_share_calculation.pdf