

Date: March 14<sup>th</sup>, 2024

## **EACRA Response to EBAs Consultation Paper on Draft ITS on public disclosures by institutions**

Dear European Banking Authority,

With reference to your consultation paper EBA/CP/2023/38 on Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 2021/637 on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) N° 575/2013<sup>1</sup>, we are pleased to hereby provide the response of our association representing European credit rating agencies registered with ESMA.

First, we would like to congratulate you for the very timely publication of this consultation paper as the political agreement on the implementation of the Basel III Reform in the European Union was reached only shortly before this consultation was launched. This very timely publication ensures that institutions will be able to modify their public disclosures in line with the entry into force of the Reform. This in turn will ensure transparency in the market.

Our response focuses on disclosures by banks linked to the nomination of External Credit Assessments Institutions (“ECAIs”) in the context of the newly introduced Output Floor and under the Standardized Approach.

With respect the nomination of ECAIs under the Standardized Approach (based on Article 444 of CRR), we from time to time review these disclosures by major institutions. In some cases, we note that institutions base their nominations of ECAIs by reference to national banking authorities or (in rare cases) to the European Central Bank. We would like to recall that since January 2014 all ESMA registered or certified Credit Rating Agencies are automatically eligible ECAIs across the whole European Economic Area without any additional discretionary power from national banking authorities<sup>2</sup>. References to the

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<sup>1</sup> The consultation paper is available [here](#).

<sup>2</sup> Article 4 (1) (98) of the capital requirements regulation (575/2013 as amended) states: ‘external credit assessment institution’ or ‘ECAI’ means a credit rating agency that is registered or certified in accordance with

selection of ECAs based on the European Central Bank list of ECAs under the ECAF framework are fundamentally erroneous<sup>3</sup>. We therefore call on all institutions to review these disclosures to include correct references to your institutions ECAI page<sup>4</sup>, where the mapping of ECAI ratings to regulatory credit quality steps is equally available.

Based on our review of nominated ECAs by institutions, we note that institutions may nominate different ECAs for different exposure classes in accordance with current (and future) regulation. Interestingly, we note that the number of nominated ECAs tend to increase with the size of the institution, thereby evidencing that even large and sophisticated institutions benefit from nominating more agencies.

The output floor is a newly introduced concept in the banking regulation. The output floor is meant as a backstop to internal ratings based models in order to reduce the excess variability of risk weighted assets. In order to calculate the output floor, the standardized approach across all exposures classes is being used. The standardized approach uses ratings from ECAs to derive capital requirements.

But, the agreed text of the Basel III reform in Europe as well as your consultation paper are silent on which ECAs should be used for the calculation of the output floor and how this should be disclosed publicly. We proceed from the assumption that institutions may nominate ECAs out of the list of all eligible ECAs without being limited to only those already nominated under the Standardized Approach. We therefore submit to you the request to amend this ITS to include a separate item covering the list of nominated ECAs for the purpose of the output floor.

We recommend to institutions to review all eligible ECAs to assess whether these could be nominated for the purpose of the output floor. We believe that using more ECAs may reduce the number of unrated exposures, provide for more assessments in the calculation of risk weighted assets and ultimately contribute to the political goal of containing capital requirements increases due to the introduction of the output floor.

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Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies ( 1 ) or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009;

<sup>3</sup> The ECBs External Credit Assessment Framework, which includes ECAs serves only the ECB for its monetary policy operations (collateral and asset purchase programmes).

<sup>4</sup> EBAs ECAI webpage is available [here](#).



We thank you for the opportunity to comment and remain at your full disposal for any clarification or additional information.

### **About EACRA**

The European Association of Credit Rating Agencies (EACRA), set up in November 2009 and registered in Paris, was established to act as a platform for cooperation for EU-based Credit Rating Agencies (CRAs). Our mission is to support and facilitate the compliance of CRAs with regulatory requirements through effective communication, cross-border know how, and the promotion of best practices. In addition, EACRA seeks to promote Credit Ratings and the interests of CRAs across Europe, as well as enhance the financial community and general public's understanding of Credit Ratings.