Date: June 25th, 2013

To:
European Commission
DG Internal Market and Services
Unit 02
Rue de Spa 2
1049 Brussels

Submitted via email: markt-consultation-long-term-financing@ec.europa.eu

Reference: Green Paper on Long-Term Financing of the European Economy

Dear Sirs,

With reference to the publication of your consultation entitled "Green Paper on the Long-term financing of the European Economy", we are pleased to submit herewith the response from our association. Our response is structured into 2 sections: the first deals with the important role of credit ratings as a financial intermediary suitable for all initiatives listed regarding Long-term financing of the European Economy. Our second part deals specifically with the access to finance for SME, where we propose a differentiated approach for Mid-Caps SMEs and the remaining SMEs. For the later, we recommend that a new legislative framework for credit scoring companies, targeting the quality of their assessments, should be put in place. Annexed to this letter are the short profiles of our 15 Corporate members from 11 European countries as well as an comparative table between credit ratings and credit scorings.

On Long-term financing

We agree with the Commission's Staff working Paper that there is no single generally accepted definition of long-term financing across all market participants and market segments. We think that the G20 definition focusing on financing maturities above 5 years is too narrow and propose rather an average maturity of 3 years.

An essential element to allow long-term financing is the stability and predictability of the legal and regulatory framework, on both users and providers of long-term financing. Sponsors of long-term investment projects assess the risks associated with the legal framework while structuring a project – predictability of cash flows being the key element (eg in the Utilities or Infrastructure financing, predictability of the tariff setting mechanisms is the key concern). Equally, for providers of long-term financing, the regulatory framework needs to be stable to allow for such long-term exposure

While the consultation paper discusses in detail the different funding sources for Long-Term investments and proposes a serie of measures and actions, credit ratings are only mentioned twice in the whole document:

- "credit ratings may focus also on annual or short horizons": we think that this analysis is misleading, as rating agencies use different time horizons, rating scales and definition of default.

- “reduce reliance on traditional ratings”: while the mechanistic reliance on external ratings from few agencies is a concern, the latest legislation on Credit Rating Agencies in Europe still allows for the use of ratings. The CRA III regulation enhances the supervisory requirements on CRAs providing additional comfort to issuers and investors.

Article 4 of the Regulation 1060/2009 on Credit Rating Agencies (thereafter “CRA Regulation”) states that the following market participants MAY use ratings for regulatory purposes:

- Credit institutions as defined in Directive 2006/48/EC,
- investment firms as defined in Directive 2004/39/EC,
- insurance undertakings subject to the First Council Directive 73/239/EEC of24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance
- assurance undertakings as defined in Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance, reinsurance undertakings as defined in Directive 2005/68/EC of the European Parliament and the Council of 16 November 2005 on reinsurance,
- undertakings for collective investments in transferable securities (UCITS) as defined in Directive 85/611/EEC
- institutions for occupational retirement provisions as defined in Directive 2003/41/EC
- Alternative investment funds as defined in Directive 2011/61/EU
- Central counterparties authorized in accordance with Regulation 2012/648/EU

Credit Ratings from EU registered or certified rating agencies can therefore be used by a wide range of investors across different market segments. CRAs are a classical financial intermediary, as they provide for a common language across different market segments and geographies. Credit ratings drive also liquidity on capital markets as they deepen the investor base and allow for tradability within the banking sector on non-listed instruments.

The latest amendment of the CRA Regulation (so called “CRA III package”) which entered into force on June 20th, 2013 includes important new provisions to ensure independence and transparency of credit rating agencies, thereby increasing comfort of users and investors. The CRA III packages also includes provisions to increase competition in the rating market.

Your consultation lists a number of participants involved in long-term financing. We think that for all these participants, ratings can play an important role

- Banks and Insurance undertakings: according to the latest Capital Requirements Regulation, all EU registered or certified CRAs will automatically receive the status of “External Credit Assessment Institution” (“ECAI”) by July 2014. By then, the Joint Committee of the European Supervisory Authorities will provide for the mapping of ratings onto the respective sectoral credit quality step scales. Given that CRAs use their own rating scales and methodologies, the ECAI mapping will provide for a transparent “translation” of the ratings to scales familiar to investors.
- Long-term Investment funds and other forms of financial resources pooling (European project bonds, Covered bonds, stock exchange financing and SME securitization) require the analysis of the underlying assets. While platforms disclosing the underlying information are a usefull tool for investors and rating agencies, CRAs can provide an independent analysis.
- Corporate governance: this may be an important aspect of analysis in the context of credit ratings. Some agencies therefore provide specific assessments. In some countries (such as Turkey), stock-listed companies may benefit from such an external assessment by receiving discounts on listing fee’s.

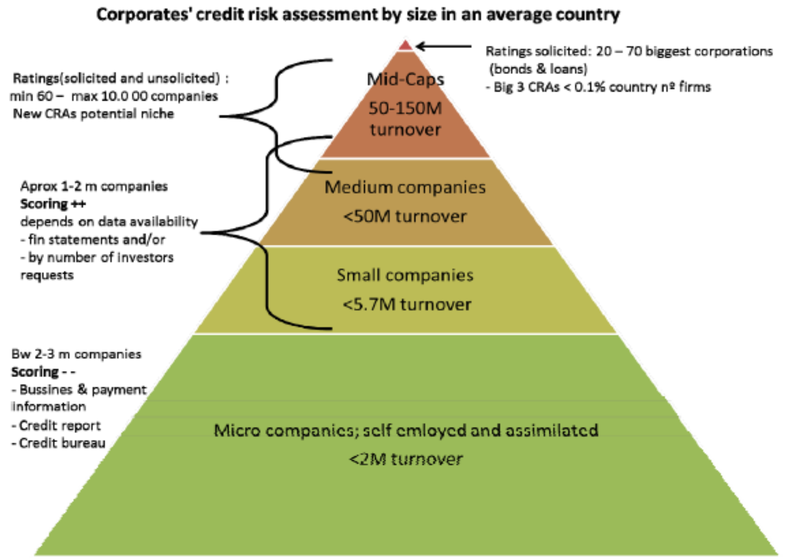
- National and multilateral developments banks should adapt their internal guidelines to take into account all ESMA registered CRAs – the ECB to equally do so (as collateral operations may drive liquidity).

On SME access to finance

The latest "European Financial Stability and Integration Report 2012" dated April 2013 dedicates one Chapter to the "SME's credit assessment industry: contribution to stability and growth". This report provides a detailed analysis of the industry and outlines important concerns.
The report underlines the importance of the availability of data (financial information) in the context of access to finance. While reporting of financial information may represent a certain administrative burden (and therefore requirements should be adapted to the size of the companies), a minimum set of information on all entities should be available.
Currently, in a period where transparency is generating a huge debate all over Europe, the Company law Directives reduces information available as some Member States have chosen to reduce the reporting requirements to the Business register and/or to reduce public access to this information.
Not having access to such information and documents will make it impossible to issue un-solicited credit ratings or credit scores (the latter usually a) being un-solicited and b) covering the total entities' population of a country).
We rather propose to revise these laws and that an EU-wide minimum and common set on annual accounts is defined as well as that European rules on the access for interested parties to information and compulsory documents filed to Business Registers are defined.

The Report further describes the different types of existing credit risk assessments, according to company's size in an average country:

Chart 5.3.1: **Distribution of non-financial corporate firms in a representative OECD country by size.**



We fully agree with this segmentation and therefore propose a differentiated approach depending on the size of the SME:

1) Large SMEs (Mid-Caps)

We support the ESMA Securities Markets Stakeholder Group's proposal to define Mid-Cap

SMEs as companies where the market cap ceiling is EUR <500 million – the current legal definition regarding SMEs based on balance sheet and number of employees are far too low when associated with stock exchange listings. The ESMA Stakeholder Group further recommends that "information asymmetries making SME research costly" should be reduced by "make existing research and ratings information available to wider set of investors".

This SME bond market is developing slowly but surely – it has reached a volume of about EUR 3 Bill in Germany with bond volumes of EUR 10 mln to 200 mln – these bonds are regularly covered by (so called smaller) European CRAs. Given that the CRD IV package will increase lending costs, we expect that the trend to capital markets funding will increase over time.

While we agree with FESE that funding of SMEs is a local and regional topic, we do think that liquidity in this market segment could be enhanced on an European level through networks and platforms, making the information available on a consolidated basis via special topical websites. This would avoid fragmentation of information and thereby contribute to a better functioning of the single market.

2) Classical SMEs

Next to the 6000 companies falling under the category of large SMEs, the vast majority of companies in Europe fall under the legal definition of SMEs (250 employees, 50 mln turnover, 43 mln balance sheet). In this market segment, credit ratings from external rating agencies play only a role at the higher end of the respective thresholds. Credit scorings, on the other hand, are an established source of creditworthiness information in this segment, widely used in business-to-business relations on a daily basis and thereby providing supply-chain financing. In particular because, usually, scoring companies evaluate the complete population of a country

We propose to introduce a new regulatory framework for the SME credit scoring industry to ensure quality and effectiveness of this type of credit risk assessments. In such a new legal framework entities would need to register with an European or national authority. It would cover a.o. scoring methodologies, procedures for gathering, checking and transforming of information, procedures for factual adjustments by analysts.

Such specific frameworks for the SME segments already exist in some jurisdictions in Latin America as well as in India with a separate list of SME rating agencies (which does not match the list of rating agencies recognized by SEBI).

We remain at your full disposal if you wish to clarify any of the above or if we can be of any other assistance to you.

Sincerely yours

Thomas Missong
EACRA President

Thomas Morgenstern
EACRA Secretary General

About EACRA

The European Association of Credit Rating Agencies ("EACRA"), registered in Paris, was established in November 2009. The Members of the Association currently originate from 10 European countries and include the following companies:

A.M. Best Europe - Rating services Limited (AMBERS) is a subsidiary of A.M. Best Inc who have been providing ratings to the Insurance Sector since 1899. AMBERS' rating coverage includes regional, national and global insurers located throughout Europe, the Middle East and Africa.

Assekurata Assekuranz Rating-Agentur is the first independent German rating agency that has specialized on the quality evaluation of insurance companies

Axesor: The first Spanish Rating agency registered with ESMA. Specialized in the middle market segment, with ample coverage of the Spanish corporate market.

Capital Intelligence (CI) offers independent rating opinions on financial institutions, corporates and governments in a wide range of countries, especially the emerging markets of Asia, Europe and the Middle East.

Cerved Group: Italian Credit Rating Agency recognized ECAI by Bank of Italy

Coface Services: French leader in business & marketing information and credit management solutions, providing a large range of tools to secure every step of companies' sales cycle and accompany their development

Creditreform Rating: based in Germany, a company of the Creditreform Group that is European market leader in the sector of business information was founded 2000 and is specialised in ratings of companies, bonds, funds and structured finance products across Europe..

CRIF: International Credit Rating Agency based in Italy providing both solicited and unsolicited Corporate ratings.

Fedafin AG : is registered with the Swiss Financial Markets Authority and acts as rating provider to the Swiss stock exchange

Informa D&B is the Marketing, Financial and Business Information leading company in Spain, offering currently more than 3.7 million online ratings on Spanish companies

Informa is the Marketing, Financial and Business Information leading company in Portugal, offering currently more than 820K online ratings on Portuguese companies

JCR Eurasia is an international credit rating institution based in Turkey.

National Rating Agency (NRA) is one of the leading independent rating agencies in Russia. As of today National Rating Agency has assigned ratings to over 750 leading Russian and international companies.

RusRating is a credit rating agency based in Moscow, with sister agencies in Armenia and Kazakhstan. It is accredited with the Ministry of Finance of the Russian Federation.

Scope was founded as an independent rating agency in Berlin, Germany, in 2002. The company is specialized in ratings and analysis of SMEs, bonds, certificates and funds across Europe.

The Members of the Association have very different business models while assigning ratings. All are deeply rooted in their respective markets; enjoy a high market share and a good reputation with local investors

Annex: comparative table between credit scoring and credit rating

	Credit scoring	Credit rating
Definition	"credit score" means a measure of creditworthiness derived from summarizing and expressing data based only on a pre-set statistical system or model, without any additional substantial rating-specific analytical input from a rating analyst. (new item (x) in article 3.1 as adopted in political trialogues on CRA III in December 2012 – entry into force likely Q2 to Q3 2013)	'credit rating' means an opinion regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories; Article 3.1.a of CRA Regulation 1060/2009
	"credit scores" as "credit ratings" both relate to creditworthiness. The difference lies in the process and the "rating-specific analytical input from a rating analyst".	
Objects analyzed	Individuals and Corporates (the full population of SMEs)	Corporates, Banks, Insurances, Sovereigns, Municipalities, Structured products
Number of appraisal issued	Very high, covers usually the full population	Low
Type of transactions in focus	Obligations arising out of consumer, commercial, industrial relationships	Investments and financing activities
Time Horizont of assessment	Usually up to one year (Short term exposures)	From one up to 5 years (depending on the credit rating agency) – long term exposures
Type of assessment	Exclusively "point-in-time" assessment (PIT) relating to a specific date. Scores may therefore substantially change from year to year.	Most frequently "through-the-cycle" assessment (TTC), smoothening the rating over time and thereby reducing its volatility. Some agencies also apply the PIT concept.
	In order to allow for the correct use of assessments from different sources by investors, we recommend that all providers of creditworthiness state which concept they are applying.	
Scales and outlooks	Usually one single ranking scale, no indication on the likely evolution of the score	Several scales may be used in order to reflect special risk (eg currency and country risk) or time dimension (short term, medium, long term). CRAs may also assign rating outlooks as an indication over the likely development of the rating over time
Primary users	Corporates	Article 4 of the CRA Regulation defines who MAY use ratings for regulatory purposes.
Type of usage	On a voluntary basis. To our knowledge, no regulation exists in the EU or a Member State requiring Corporates to use credit scores or credit ratings for their internal risk management systems.	The CRA I and II regulation only provided for the possibility to use ratings from registered agencies for regulatory purposes, without defining how these should be used, as this is left to sectoral legislation. CRA III has introduced a specific

		requirement for Structured Finance ratings: these are considered unrated unless 2 or more ratings are available.
Process	Mainly based on a automatic system, where scores are assigned automatically: with automatic integration of new data in the database, when available from public or private sources. The process includes the cross-checking and linking of information from different sources. Considering the number of scores issued and the price to access them, this contribution is usually limited in scope.	Mainly based on a human analysis The definition of 'credit rating activities' in Article 3.1(0) (means data and information analysis and the evaluation, approval, issuing and review of credit ratings) excludes the automatic assignment of a rating without human intervention. Additionally, Article 8 states that "A credit rating agency shall adopt, implement and enforce adequate measures to ensure that the credit ratings it issues are based on a thorough analysis of all the information that is available to it" A thorough analysis goes beyond the cross-checking of information of different sources as it includes a critical expert review.
Reports	Usually produced automatically	Tailor-made report containing substantial non-standardized texts.
Human contribution	In case of new qualitative information that could not be efficiently taken into account as a simple coded data field and then processed in an algorithm, human contribution may be required if described in the methodology. This contribution is usually very limited in scope.	Art 3.1(d) states that an 'rating analyst'(..) performs analytical functions that are necessary for the issuing of a credit rating; Rating analysts may for instance adapt financial statements in order to take into account different accounting standards. The rating may take a forward looking approach which includes the critical, expert based review of financial projections. Rating analyst usually also take into account specific industry related developments and carry out peer group reviews. Other sectors of analysis usually cover the corporate governance structure, the strategy and the financial policy
Assignment of score/rating	Automatically	Rating is assigned either by a rating analyst or a rating committee
Publication of score/rating	Not published. Scores are available against the payment of a fee	Depending on the business model of the agency, ratings may be publicly available or only against payment of a fee/subscription. These fee's are usually far higher than