

June 18th, 2010

To
Committee of European Securities Regulators
Standing Committee on Credit Rating Agencies

Dear Members of the Standing Committee on Credit Rating Agencies,

With reference to your consultation paper “Guidance on Common Standards for Assessment of Compliance of Credit Rating Methodologies with the requirements set out in Article 8(3)” dated May 17th, 2010 (“the Consultation”, reference CESR/10-537), we hereby would like to provide our comments to your esteemed institution.

According to § 8 of the Consultation, you consider the requirements stated as non-exhaustive as it provides only a base guidance. As an association, we will therefore address only the highlight issues here, as our members may face specific additional requirements from your side. If you have already specific items in mind, kindly share these with the Existing Credit Rating Agencies (“Existing CRA”) as soon as possible so that these can be prepared upfront to the already started registration process.

In this context, we think that the requirements are already now extremely extensive and that the rating agencies will need to devote substantial resources to prepare the requested information. From your side, it means that you will need to review this full set of information within the envisaged timeframe, which might be a substantial task (especially as the registration for Existing CRA runs in parallel!). With reference to the recent proposal by the EU Commission regarding an amendment to the existing EU Regulation in order to mirror the establishment of ESMA, the registration procedure will substantially be shorten – this in turn will make the full assessment of the methodologies even harder.

According to Article 11(1) of the Regulation on CRA EC 1060/2009, CRA’s “shall fully disclose to the public (...) the matters set out in Part I of Section E of Annex I”, which includes as item 5 “the methodologies”. Given the extent of information requested by your side, we think that disclosing this full set of information to the general public would not achieve any result, as the review process for any interested party would be too burdensome. CRA’s should rather make available to the general public only a summary of the methodologies applied, driving down information and transaction costs. We therefore proceed from the assumption, that all the information provided by a rating agency to the competent authority will be treated confidentially.

According to § 9 of the Consultation, request for information may be made in writing or orally. In order to document these requests, we kindly ask you to avoid any oral requests and rather to state your questions in writing. This will ensure that a CRA can distribute internally the request without any loss of information. This in turn will ensure that your requests are properly treated and that the feed-back contains the expected details, thereby reducing the administrative burden to all parties. Unfortunately, this consultation does not state any specific timeframe during which an

agency needs to respond – unless there is a specific urgency, we would expect that a CRA has at least 20 business days to respond.

Regarding the requirement that methodologies should be rigorous, we would propose focusing on § 16 L “quantitative evidence of the discriminatory power of the credit assessment methodologies” as this is the result of the whole analytical work of the agencies (eg requirement 16 C, 16 E, 16 G, 16 H). Focusing on this would be consistent with the approach stated in § 13 that “the competent authority will not interfere with the content” of credit rating methodologies.

According to § 16 A, the independent directors are in charge of developing the rating methodologies. In case of smaller agencies having an exemption under Article 6(3) of the Regulation, who in your opinion should have this role? As you will easily understand, employing one independent director solely in charge of developing and reviewing rating methodologies represents a high administrative cost to a small agency – especially if such an agency focuses on one specific market/industry, has a proven track record of ratings in this field and updates/reviews of the methodology should take place only in a limited range. We therefore strongly request that you consider the following options:

- Review of methodologies done internally by the agency: the review would be carried out by the agency itself through a defined process requiring the collaboration of all analysts. At the end of the process, the agency would adopt the changes or not.
- Use of outsourcing arrangements: some agencies built their methodologies in collaboration with research centres and universities, in order to take into account external information and to enhance the quality of the ratings. The review of the methodologies could also be carried out by these entities.

Both approaches are in line with the requirements of Article 8 (5) and Article 9 of the Regulation. Outsourcing arrangements covering the review function would of course be carried out according to the guiding principles released by your institution (a.o. item 11 of the “FAQ on EU Regulation on CRA: common positions agreed by CESR members” dated June 4th, 2010).

Paragraph 19 A states that rating methodologies should remain globally consistent. Kindly note that our members have a regional or even local focus and that their methodologies are especially suited for their respective markets. Furthermore, different national accounting methods may require a different presentation of the results – rating methodologies should therefore balance out between a global perspective on the one-hand and regional/local requirements on the other.

Paragraph 19 B requires a frequent review of methodologies. Our preference is to state that methodologies are monitored according to a procedure as indicated in §20(3). Rating methodologies should, as they are the framework of analysis based on which final ratings are assigned, only be changed if there is enough proof and evidence that a change is required. This will provide for more stability and avoid any market disruptions in case revised methodologies lead to rating actions. Note that the



quantitative section of a methodology (focusing on the financial results) should be updated on a yearly basis in order to reflect the new financial information available.

Regarding the requirement that rating methodologies are subject to validation based on historical experience, including back-testing, we would like to refer to the “whereas 23” of the Regulation stating that these requirements should “not be applied in such a way as to prevent new credit rating agencies from entering the market”. Given the current oligopolistic structure of the rating market, we request that this line of thought is also applied to smaller players. Excluding Existing Rating Agencies on the ground that a specific requirement is not met, will obviously further cement the current market situation.

Paragraph 22 E states that historic information on validation should be submitted. According to the generally accepted principle that Existing CRA's should be compliant with the regulation when the registration is granted, the CRA's should submit only the information on the methodologies currently in use.

Kind regards

Thomas Missong
President

About EACRA

The European Association of Credit Rating Agencies (“EACRA”), registered in Paris under the laws of France, has been formally established. The Members of the Association currently originate from 7 European countries and include the following companies:

- Assekurata Assekuranz Rating-Agentur is the first independent German rating agency that has specialized on the quality evaluation of insurance companies
- Axesor: Specialized on Spanish SME unsolicited ratings/scorings.
- Credit Rating: covers corporate, financial institutions and municipalities in Ukraine
- JCR Eurasia: is Japan Credit Rating affiliated company in Turkey and covers all market segments.
- PSR RATING, based in Germany, focuses on solicited corporate ratings and the development of valid rating systems

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. In addition EACRA is in close contact with nearly all rating agencies in Europe.

The main purpose of EACRA is to promote the cooperation between European rating agencies, to assist agencies in the context of the upcoming registration process under the EU Regulation 1060/2009 on Credit rating agencies and to provide information on ratings to the general public.