To

European Commission

Submitted via EC website

May 13th, 2015

Reference: Green Paper on "Building a Capital Markets Union"

With reference to the publication of your Green Paper "Building a Capital Markets Union" on February 18th, 2015, we very much welcome the opportunity to comment and hereby submit the views our association. The European Association of Credit Rating Agencies ("EACRA") currently represents 10 ESMA registered and 1 ESMA certified Credit Rating Agencies (the short profiles of our Members are attached to this letter).

Before responding to a selected number of questions raised, we would like to argue that Credit Rating Agencies can play an important role in the Capital Markets Union ("CMU").

The objectives of the CMU are to: Increasing access to financing (…) Increasing and diversifying the sources of funding (…); and Making markets work more effectively and efficiently (..). The Green Paper consults on different market segments and topics in order to better connect providers of funds with users of funds. A central element revolves around the assessment of creditworthiness/risk in order to allow a "better cross border risk sharing via capital markets". Credit Rating Agencies ("CRA") provide an independent opinion of credit risk and can therefore support the CMUs objective. According to Article 4.3 of the CRA Regulation, Credit Ratings MAY be used by a variety of investors. Credit Ratings can therefore help to diversify the sources of funding.

Furthermore, using CRAs in the CMU framework corresponds to the key principle to create "a single market for capital for all EU Members States". With the entry into force of the Capital Requirements Regulation in January 2014, all ESMA registered and certified CRAs are recognized as External Credit Assessment Institution ("ECAI") across the whole European Economic Area. Since CRAs ratings can be used across the whole EU, CRAs ratings can contribute to making markets work more efficiently.

Since CRAs in Europe are registered with and under on-going supervision of ESMA, including CRAs in further CMU considerations corresponds to the principle that the CMU should be built "on a single rulebook for financial services which is effectively and consistently enforced".

Including CRA ratings in the CMU does not counteract the general objective to reduce sole and mechanistic reliance on CRA ratings. Good progress has been done in legislation, regulations and guidelines to reduce this reliance. ESMA's Discussion Paper on "references to ratings"[1] dated December 2014 as well as the responses to this Discussion Paper show that, investors use ratings as one element in their own creditworthiness assessment or as an widely accepted external benchmark.

While Article 5c of the CRA Regulation includes the requirement to delete all references to ratings in EU legislation by 2020, the same articles requires that alternatives are being identified and implemented. In December 2014, the Basel Committee for Banking Supervision consulted on the "Revision of the standardized approach"[2] which included the proposal to substitute credit ratings by different, market specific financial ratios. The responses to this consultation show that the deletion of credit rating agencies is widely rejected and that these can't be substituted by simple financial ratios. Since respondents further request that any revision to the Standardized Approach is being properly calibrated and given the imminent need to act to make the CMU a reality, CRA ratings should be properly considered.

Since there are currently 24 registered CRAs[3], issuers have a great choice of potential CRAs to mandate. Some European CRAs have a special focus on Mid-cap listed SMEs or larger SMEs. Given that the CRA market in Europe is evolving and that some European CRAs are extending their coverage, issuers and users should familiarize with the diversity of CRAs on the market. The increased availability of different credit opinions expands choices to investors and mitigates cliff effects and herd behavior associated with the use of only 2 or 3 agencies. The European Union should therefore pursue all measures to ensure real competition in the rating market. In this context, we call on the European Supervisory Authorities to finalize the mapping of ECAIs ratings in a consistent manner across all market segments and all ECAIs in order to allow for a level playing field going forward. Additionally, we call on ESMA and National Competent Authorities to develop guidelines relating to the use of several Credit Rating Agencies according to Article 8d of the CRA Regulation.

A further principle of the CMU is "to attract investments from all over the world and increase EU competitiveness. In this context, we would like to draw to your attention that European Credit Rating Agencies face substantial barriers to international recognition/recognition in other jurisdictions. While the EU has opened its markets to Third Country CRAs via the certification procedure, Third Countries legislations don't include such a "simplified" approach – we therefore call on the European Union to revise its Third Country Equivalence assessments to include the principle of reciprocity. Since the target is to attract funding from a global range of investors, a wider system covering more countries than the current list of equivalent countries should be equally considered.

[1] See ESMA Discusssion Paper „the use of credit ratings by Financial Intermediairies Article 5(a) oft he CRA Regulation dated December 223rd, 2014 and the responses published in April 2015. Available at ESMA's website under: http://www.esma.europa.eu/consultation/Discussion-Paper-Use-Credit-Ratings-Financial-Intermediaries-Article-5a-CRA-Regulation

[2] Available at the BIS website under: http://www.bis.org/bcbs/publ/d307.htm. the responses are available here: http://www.bis.org/bcbs/publ/comments/d307/overview.htm

[3] The list of registered CRAs is available at the ESMA website: http://www.esma.europa.eu/page/List-registered-and-certified-CRAs

Question 2: SME credit information

While SMEs represent the back-bone of the European economy and that access to finance for smaller SMEs is of particular concern, we think that a differentiate and proportionate approach should be taken, distinguishing for the size of the SME (micro, small, mid-sized SMEs, larger Mid-cap, stock listed SMEs) and very large companies. With respect to Mid-cap stock listed SMEs, we would like to mention that several European CRAs have a special focus on these markets.

Question 4: Private Placements

As a barrier to the development of pan-European markets, the Green paper mentions “the lack of standardized (…) information on the creditworthiness of issuers”.

While CRAs don’t provide a standardized creditworthiness information but rather an in-depth analysis of the credit risk of an issuer, we think that CRA ratings are an important tool to support the development of the private placement market.

While formally “private ratings” are not subject to the strict requirements of the CRA Regulation, several ESMA registered CRAs apply the same methodologies and processes to these “private ratings” and thereby provide the same quality and level of analysis to a restricted number of investors.

EACRA stands ready to supporting any initiatives in developing the documentation standards for the private placements.

Question 5: improving access to finance

The Green paper mentions that “access to capital markets is costly” and (…) “includes the costs of (…) commissioning external ratings”. While CRA ratings have their costs, the formulation used seems to indicate that external ratings are mandatory for issuers. While in some market segments one or two ratings are market practice, several issuers are not rated at all – the lower the volume of debt issued, the higher the likelihood that a debt instrument is not being rated by an CRAs.

Compared to the overall costs of going public, fees paid to CRAs for their independent assessment of credit risk are reasonable and commensurate to the analysis done. Additionally, the increased competition in the rating industry ensures that the price for ratings is defined according to real market dynamics.

Question 6: liquidity in corporate bond markets

We agree with UEAPME’s[4] point of view that “standardisation may help in some cases, but more important would be measures which allow bundling of SME bonds to reach sizes, which can attract investors.”

[4] See UEAPME’s position paper on this Green paper page 3. Available at: http://www.ueapme.com/IMG/pdf/150429_CMU_greenpaper_PP.pdf

We once again would like to thank you for launching this consultation. We remain at your disposal for any clarification or information.

Sincerely yours

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About EACRA

The European Association of Credit Rating Agencies ("EACRA"), registered in Paris, was established in November 2009. The Members of the Association have very different business models (issuer-pays, investor-pays, hybrid and special models) while assigning ratings. The Members of the Association currently originate from 11 countries and include the following companies:

ESMA registered Credit Rating Agencies

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

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.
Dagong Europe Credit Rating, headquartered in Milan, was registered by ESMA in June 2013. It is owned by Dagong Global Credit Rating (, led by Ulrich Bierbaum as General Manager. Dagong Europe provides European and Asian investors with credit opinions on financial institutions (including insurance companies) and non-financial corporate.
Euler Hermes Rating is a European rating agency located in Hamburg, Germany. We offer credit ratings and research about debt capital market instruments of corporates of all sorts of industries, project finance ratings and credit portfolios. Euler Hermes Rating is a member of Euler Hermes Group and a company of Allianz
Scope Ratings was founded as an independent rating agency in Berlin, Germany, in 2002. It specializes in ratings and research of financial institutions, corporates, structured finance transactions and alternative investment funds across Europe.

ESMA certified Credit Rating Agencies

Kroll Bond Rating Agency (KBRA) was established in an effort to restore trust in credit ratings by creating new standards for assessing risk and by offering accurate, clear and transparent ratings. KBRA is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (NRSRO). In addition, KBRA is recognized by the National Association of Insurance Commissioners (NAIC) as a Credit Rating Provider (CRP).

CRAs registered or recognized according to national legislation outside of the European Union

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

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.

Other EACRA members

Ellisphere: French leader in business & marketing information and credit management solutions, providing a large range of tools and solutions to secure companies' supply chain financing and improve their development.

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

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

Since January 2014, all ESMA registered or certified CRAs are considered ECAIs across the whole European Economic Area.

Reference the Article 8 d of the EU Regulation on Credit Rating Agencies (as amended) on the use of multiple CRAs and ESMA's report dated December 22nd , 2014, all EACRA members registered with ESMA have less than 10% market share in the EU (measured against revenues).