November 28th, 2013

Reference the new rules for Money Markets funds ("MMFs") as proposed by the European Commission ("EC") on September 4th, 2013, we hereby would like to submit the views of our association, which currently represents 8 ESMA registered Credit Rating Agencies and 4 rating agencies registered or recognized outside of the European Union.

While our members are not active in the field of Money markets Funds ratings currently, we need to comment on the proposal that managers of MMF's should not solicit a rating as proposed in Article 23. We think the arguments underpinning this proposal (as discussed in the impact assessment accompanying the proposal) need to be reviewed and put into a different perspective:

1) The EC argues that the prohibition to solicit a rating is linked to the potential adverse effects following a rating downgrade (eg due to fire sales of assets). While the number of actual downgrades in the MMF sector was rather low, we agree that such mechanistic reliance on external ratings needs to be addressed. The MMF proposal therefore requests that internal credit assessments should be done. An additional route to further mitigate the effects of downgrades is to give managers time to reallocate their assets.
2) The EC argues that MMF's could still be rated on an unsolicited basis. To our knowledge, no ESMA registered CRA is rating money market funds on such a basis. Given the short-term nature of MMF's, access to regular information on the MMF's asset allocation/redemption is a key element – requesting information from MMF's (similar to those in the CRA 3 Regulation on Structured Finance instruments) allowing investors to carry out their own assessment may represent a very high burden to MMF's.
3) The impact assessment accompanying the proposals argues that CRAs ratings can't be used interchangeably as they use different methodologies and assess different risks. We think that different rating methodologies are underpinned by the CRA regulation and that several ratings therefore provide different and additional information to users.
4) The stakeholder consultation shows that the majority of users of ratings are still interested in having ratings. Only very large and highly sophisticated investors state that they are able to carry out the internal risk assessment themselves. Furthermore, several users state that ratings are used as a first filter of analysis only. Finally, some users argue that "ratings are not the perfect solution but that no other credible alternative exists for defining the quality of an asset".
5) Prohibiting ratings means that external risk assessments will be moved into an unregulated, unsupervised market, leaving the users of ratings but also supervisors with less comfort. The Regulation on Credit Rating Agencies in Europe includes several requirements to ensure the quality of ratings and to eliminate any potential conflict of interest under the issuer-pays model. ESMA, as the sole supervisor of CRAs in the EU, has extensive powers to ensure that CRAs comply with the regulatory requirements imposed on rating methodologies, rating processes, rating analysts etc…

With respect to the proposed internal rating system, we think that the requirements should take into account proportionality measures as the proposed system is complex and costly to implement (as it should differentiate for 5 different categories) as well as to monitor.

The proposal also suggests that the credit quality steps should be defined on a scale using 6 steps for performing assets and 1 step for defaulted. This structure seems at first sight comparable to the structure of the CRD IV Regulation: if the intention is to allow easy comparability, we support this scale – otherwise we would recommend using another structure in order to highlight the specific nature of MMFs. Additionally, we agree that MMF ratings should be marked separately by CRAs. Last but not least, we recommend that a mapping of ratings issued by ESMA registered or certified CRAs is provided for.

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