



TO:

European Central Bank

Submitted via "ECB Listens Portal"

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Dear ECB

With reference to the on-going Review of the Monetary Strategy, we welcome that the ECB has engaged in public discussions and has raised specific questions via the ECB Listens Portal. Our contribution focuses on the implementation of the monetary strategy via the different instrument and more precisely the ECAFs, APPs and PEPPs use of ratings from selected agencies as eligibility criteria.

While the ECB has over time substantially modified its collateral framework and expanded into asset purchase programmes to underpin its monetary policy, the ECB continues to focus on the ratings provided by the North American agencies. Given that the ECB has faced regular political questions and in view of the good practice of other central banks to use European agencies as an input, we propose that the ECB and the National Central banks take a more inclusive approach towards European agencies.

Brief review of the use of ratings in the ECB policy instruments

We note that the ECB has substantially modified the Eurosystem collateral framework since its initial introduction in 2001: while minimum credit requirements were set at a rating of at least A- until 2008, the global financial crisis led to a revision covering also BBB rated entities. Thereafter, the ECB regularly modified the haircuts applicable to the different asset categories and introduced specific requirements for the ABS asset class.

In March 2015, the ECB announced the Asset Purchase Programme¹, which uses the same eligibility criteria as the ECAF and therefore includes references to the 4 North American agencies. As of June 2020 the APP has reached the massive amount of EUR 2 775 Bill out of which EUR 2 242 Bill invested in Sovereign bonds. Based on our research, we estimate that since September 2017 the ECB alone

¹ See ECB Asset Purchase Programme:

<https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html>



holds more Eurozone sovereign debt than all Eurozone banks or all Eurozone insurance companies taken together.

In April 2020, the ECB announced the Pandemic Emergency Purchase Programme (“PEPP”) and decided that asset meeting the eligibility criteria on 7 April would remain eligible in case of downgrades up to the BB level.

While the ECB uses a wide range of credit assessment sources for its collateral framework and asset purchase programmes, in fact about 90% use as an eligibility criteria the ratings provided by 4 North American rating agencies², leaving out of the picture the numerous EU headquartered rating agencies registered as such with ESMA³. In 2016, the ECB published minimum coverage requirements for rating agencies setting very high standards for multi-country, multi asset class coverage over a longer time frame⁴, effectively excluding European agencies from being accepted as a source to the ECAF.

It is important to note that the ECB retains the right not to accept an asset for collateral operations even though the formal eligibility criteria, including the minimum requirement, have been met. The ECB may, after its own due-diligence, reject such assets. The eligibility criteria are therefore not automatic.

Political calls to include further sources

In June 2013, the Capital Requirements Regulation was adopted. This regulation introduced the automatic recognition of ESMA registered or certified CRAs as eligible ECAIs by January 2014. In addition, this Regulation included in its recital 98: “ The recognition of a credit rating agency as an external credit assessment institution (ECAI) should not increase the foreclosure of a market already dominated by three main undertakings. EBA and ESCB central banks, without making the process easier or less demanding, should provide for the recognition of more credit rating agencies as ECAIs as a way to open the market to other undertakings.”

Several Members of the European Parliament have raised Written questions to the ECB outlining their concern that the ECB does not accept European agencies as a source to the ECAF⁵.

² As of December 2019, the use of collateral reached approximately EUR 1,6 Trill, ECAIs accounting for around 76% of all assets. By December 2019, the APP reached EUR 2,6 Trill all being based on the 4 dominant agencies. Taken together, the ECB relied at 91% on the 4 ECAIs. Since then, the APP grew by an additional EUR 200 Bill and the PEPP added EUR 365 Bill, further increasing the reliance on these agencies.

³ While some European agencies were recognized as Rating tool providers, this category of creditworthiness source was deleted from the ECAF in 2019

⁴ See:

https://www.ecb.europa.eu/pub/pdf/other/eb201601_focus03.en.pdf?de5b34c9815b4e6f4ad8c9a05afb5744

⁵ Amongst others, a group of MEP (Brian Hayes, Paul Tang, Sven Giegold, Wolf Klinz, Ashley Fox) raised a question in June 2018. The ECB response is available here:

https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter181116_Hayes_Tang_Giegold_Klinz_Fox.en.pdf?811e816c4381bfa8805fa37339bf5060



In its special report on Credit Rating Agencies dated February 2016, the European Court of Auditors highlighted the following: “However, the Eurosystem’s approach effectively upholds the two tier market structure, in which small CRAs cannot compete on an equal footing with the large CRAs. In particular the criterion of ‘relevant coverage’ represents an effective barrier to entry”⁶.

Practices by other Central Banks

We note the following practices of other European Central Banks to take into account European credit rating agencies:

Since [May 2020], the Swedish Central Bank has included ratings provided by Nordic Credit Rating as well as Scope in the context of its commercial paper purchases⁷.

In July 2019, the Magyar Nemzeti Bank (Hungary’s Central bank) started its “Growth Bond Program” in the amount of HUF 450 Bill regarding bonds issued by non-financial corporates. Rating providers for this programme are mainly Scope but also Euler Hermes Rating⁸.

In Italy, Banca Italia continues to accept Cerved Rating Agency and CRIF Ratings as Rating tool providers⁹.

Its time to acknowledge the existence of European CRAs

While there are 30 credit rating agencies registered with and supervised by ESMA¹⁰, the current ECAF criteria using only the 4 dominant North American agencies ignores the existence of the European players.

Instead of simply ignoring the ratings issued by European agencies, it is time for the ECB to acknowledge the existence of these ratings and to use a reversed due-diligence and approval process: where an asset rated by a European agency meets the minimum credit quality requirements¹¹, the ECB should undertake a due-diligence to confirm this assessment. In such a case, the asset would become eligible for ECAF, APP or PEPP purposes.

⁶ See §39 page 21 of Special Report 22/2015 of the European Court of Auditors “EU Supervision of CRAs – well established but not yet fully effective” dated February 1 st, 2016 available at:

https://www.eca.europa.eu/Lists/ECADocuments/SR15_22/SR_ESMA_EN.pdf

⁷ <https://www.riksbank.se/globalassets/media/villkor-auktion-foretagscertifikat/2020/special-terms-and-conditions-25-may-2020.pdf>

⁸ <https://www.mnb.hu/monetaris-politika/novekedesi-kotvenyprogram-nkp>

⁹ https://www.bancaditalia.it/compiti/polmon-garanzie/gestione-garanzie/Valutazioni_del_merito_di_credito_da_strumenti_di_rating_di_fornitori_terzi_Rating_Tool_-_RT_.pdf

¹⁰ ESMA list of registered or certified CRAs: <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>

¹¹ As a benchmark, the ECAF could use the mapping of ECAI ratings to regulatory steps as provided and monitored by the Joint Committee of European Supervisory Authorities.



Given that European agencies regularly rate assets not rated by the Dominant North American agencies, such an approach would contribute to the expansion of eligible assets and thereby contribute to the transmission of the monetary policy to the wider European economy.

Such an inclusive approach towards European agencies would contribute to a more competitive rating market and reduce risks to financial stability resulting from the reliance on the dominant 4 systemic agencies.

Additionally, based on the example of Banca d'Italia accepting 2 European agencies as Rating Tool providers, we propose that National Central Banks equally nominate European agencies for local monetary operations or purchase programmes. Such a recognition should ideally occur in the category of ECAIs.

We appreciated the opportunity to provide this comment on a very specific, technical aspect of the ECBs implementation of its Monetary Policy. We would welcome if the ECB uses the opportunity of its Strategy Review to also review its approach towards European rating agencies.

Sincerely yours

Thomas Missong
EACRA President

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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 currently originate from 10 countries and include the following companies:

ESMA registered Credit Rating Agencies

ACRA Europe (formerly European Rating Agency, ERA) was established in 2001 and in June 2012, ERA became a registered credit rating agency under EU regulations, which allows assigning ratings for regulatory purposes. ACRA Europe is a wholly owned subsidiary of ACRA, the leading credit rating agency in the CIS.

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 is a European Rating Agency providing solicited and unsolicited credit ratings on non-financial companies. The Agency also operates as a Rating Tool authorized by the Bank of Italy, within Additional Credit Claims framework, to assess the credit quality of eligible assets used in ECB/Bank of Italy monetary policy operations.

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.

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

Nordic Credit Rating assigns credit ratings to financial institutions and corporate entities based primarily in Denmark, Finland, Iceland, Norway and Sweden.

Scope Ratings is the leading European credit rating agency, offering clients opinion-driven, forward-looking and non-mechanistic credit risk analysis and contributes to a greater diversity of opinions for institutional investors. Scope Ratings is a credit rating agency registered in accordance with the EU rating regulation and operating in the European Union with External Credit Assessment Institution (ECAI) status. It provides ratings and analysis on Corporates, Financial Institutions, Covered Bonds, Public Finance, Structured Finance and Project Finance.

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

Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions. ACRA's main objective is to provide the Russian financial market with high-quality rating products: methodologies and internal documents of ACRA are developed with regard to global rating industry best practices.

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.