



To

International Organization of Securities Commissions
("IOSCO")

Submitted via Email

March 23rd, 2015

Dear IOSCO C6 Committee,

With reference to your first questionnaire on "Other CRA Products" published on February 4th 2015, we first would like to thank your Committee for its continued interest and work on Credit Rating Agencies. We appreciate IOSCO's effort to get a better understanding of the rating industry and rating related activities.

Your questionnaire seeks detailed information on the products and services provided by Credit Rating Agencies. As an European industry association, we would like to provide our general view and hope that this will be complemented with information directly from CRAs.

With reference to the numerous terms listed in your questionnaire, we think that these address certain important concepts but that there is a lack of clear definitions on a global level and across agencies. We note that CRAs may use different terminology for similar concepts – we therefore kindly ask you NOT to use the terms in this letter as a valid and unique benchmark.

We think that the first layer of distinction between CRA products and "other CRA products" lays directly within the applicable laws. In Europe, the Regulation 1060/2009 (as amended) on Credit Rating agencies ("EU CRA Regulation") defines what falls within the scope of the regulation and what not (eg private ratings, credit scores). The same regulation also defines a list of rating ancillary activity. ESMA has provided details guidance on the scope of the CRA Regulation.

Certain CRAs may provide different types of credit ratings (and use a different methodology) distinguishing for the time frame (short term or long term) and or currencies and may issue ratings on national rating scales.

In Europe, "preliminary ratings" have a specific legal context and need to be disclosed separately. While the term is not defined, we think that such preliminary ratings are based on a full rating process and that the rating is communicated only to the contracting party. Such a "preliminary rating" may convert into a "credit rating". Next to this confidential preliminary rating, there are preliminary ratings published by CRAs – these ratings are usually available during the offering of an debt instrument and are subject to review in case of a change in financing terms and conditions.

With respect to "private ratings", in Europe, these are not covered by the EU CRA Regulation and may therefore not be used for regulatory purposes. Some CRAs provide private ratings (point-in-time and monitored on a confidential basis) in addition to the traditional public ratings availing of a sole legal entity for the provisions of the rating services and using the unique methodology presented to the competent authorities during the registration process being such methodology transparently disclosed to the market. Confidentiality and limitation of disclosure of the ratings are regulated by the contracts entered into the CRA and the entity

receiving the rating. In applying the same analytical quality standard, these CRA aspire to ensure for the issuer consistency and comparability to the standards applied to public rating assignments.

Next to the above activities, CRAs may provide the following rating related activities:

- Indicative ratings: based on a limited information and a limited rating process, the rating agencies provides to the issuer a potential rating range. Such products are designed as an entry-gate to the rating market.
- Rating impact analysis: a rated entity may request the rating agency to analyze potential future scenarios (eg due to M&A activity)
- Point in time assessments: the EU CRA Regulation requires that ratings are monitored and reviewed annually (for sovereigns twice a year). Since market participants may be interested in the credit quality of an entity at a specific date (without any further monitoring eg as the transaction was not pursued), CRAs may provide such “one-off” assessments. This “point in time assessments” need to be distinguished from the methodological approach/the rating philosophy behind ratings (Through-The-Cycle and Point-In-time ratings).
- Credit Ratings are prepared in accordance with published rating methodologies and include substantial qualitative and quantitative analysis. Since market participants may be interested in some aspects only, certain CRAs may provide separate analysis:
 - o Financial strength ratings: such analysis looks on the financial aspects of an entity and excludes further potential external support. Such ratings may be called “stand alone ratings”
 - o Corporate Governance scores: the focus of the analysis lies here on the governance and risk management of an issuer.
 - o Risk assessments: without disclosing a rating or a score, a CRA may carry out detailed risk profile/risk drivers analysis of an entity.
 - o Some agencies may also provide separate “sustainability assessments”.
- Going beyond a specific entity, credit rating agencies may provide comparative assessments, peer group analysis, Industry risks assessments or Country Sector specific Risk Assessments. Such “wider” products inform users about wider risk trends.
- Further to ratings on debt instruments, agencies may produce Equity ratings, market-implied ratings, asset management ratings, money market fund ratings to name just few.

Last but not least, Credit Rating activities may be (i) part of a wider group of companies; or (ii) carried out as business scope services by a sole legal entities. In Europe, several companies (with highly different backgrounds) entered the rating market in recent years. Compared to the overall activities of these companies, the rating activity (“traditional credit ratings”) may therefore be highly limited in scope. Prominent other activities include business information and credit scores.

In view of the above extensive but non-exhaustive list of “Other CRA Products”, the list of potential users differs substantially and may include but is not limited to those market participants using the ratings for regulatory purposes.

While we appreciate the IOSCO’s C6 interest in understanding the “Other CRA products”, we think that a standardized terminology for all products is not doable (additionally, in view of the ever evolving financial markets and financial innovation, CRAs may develop further products based eg on market demand).



EACRA response to IOSCO C6 on „other
CRA products“ dated March 23rd, 2015

Similar to ESMA’s guidelines on the Scope of the CRA Regulation in Europe, we welcome a discussion regarding the “other CRA products” and how these are covered by the IOSCO Code of Conduct on CRAs. We further recommend that CRAs disclose whether a product is within or outside the scope of the relevant national legislation on Credit Rating Agencies, thereby contributing to the correct use of the different assessments/products.

We strongly recommend and emphasize the need, in the aim for a better level playing field, transparency and therefore a real market competition, that CRAs should disclose - in accordance with Regulation - the list of its ancillary services and in their Transparency Report the financial information on the revenues, divided into fees from credit rating and non-credit-rating activities with a comprehensive description of each.

In view of IOSCO’s current work on “Cross-border Regulation”, we would appreciate if the IOSCO C6 Committee addresses the lack of competition in the global rating due to the lack of a coherent global framework on Credit Rating Agencies. While several jurisdictions have introduced special legislation on Credit Rating Agencies, these often include the requirement of a local office –such costs can only be absorbed by very large players and thereby strongly limits global competition. Since more than 100 rating agencies operate globally, an international system on CRAs could substantially expand the choice from 2-3 agencies, reduces reliance on single CRAs and reduce systemic risk.

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

Sincerely yours

Thomas Missong
EACRA President

Adolfo Estevez Beneyto
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 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.

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.

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).