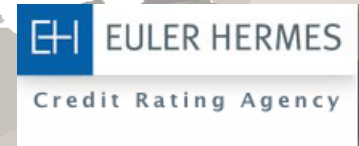


# Roundtable on ESG



# CREDIT RATINGS AND ESG

# Overview

- Credit ratings

- Measure creditworthiness
- are opinions (a mix of qualitative and quantitative judgment)
- May be used by professional investors for regulatory purposes
- Are regulated and supervised by ESMA

- ESG assessments

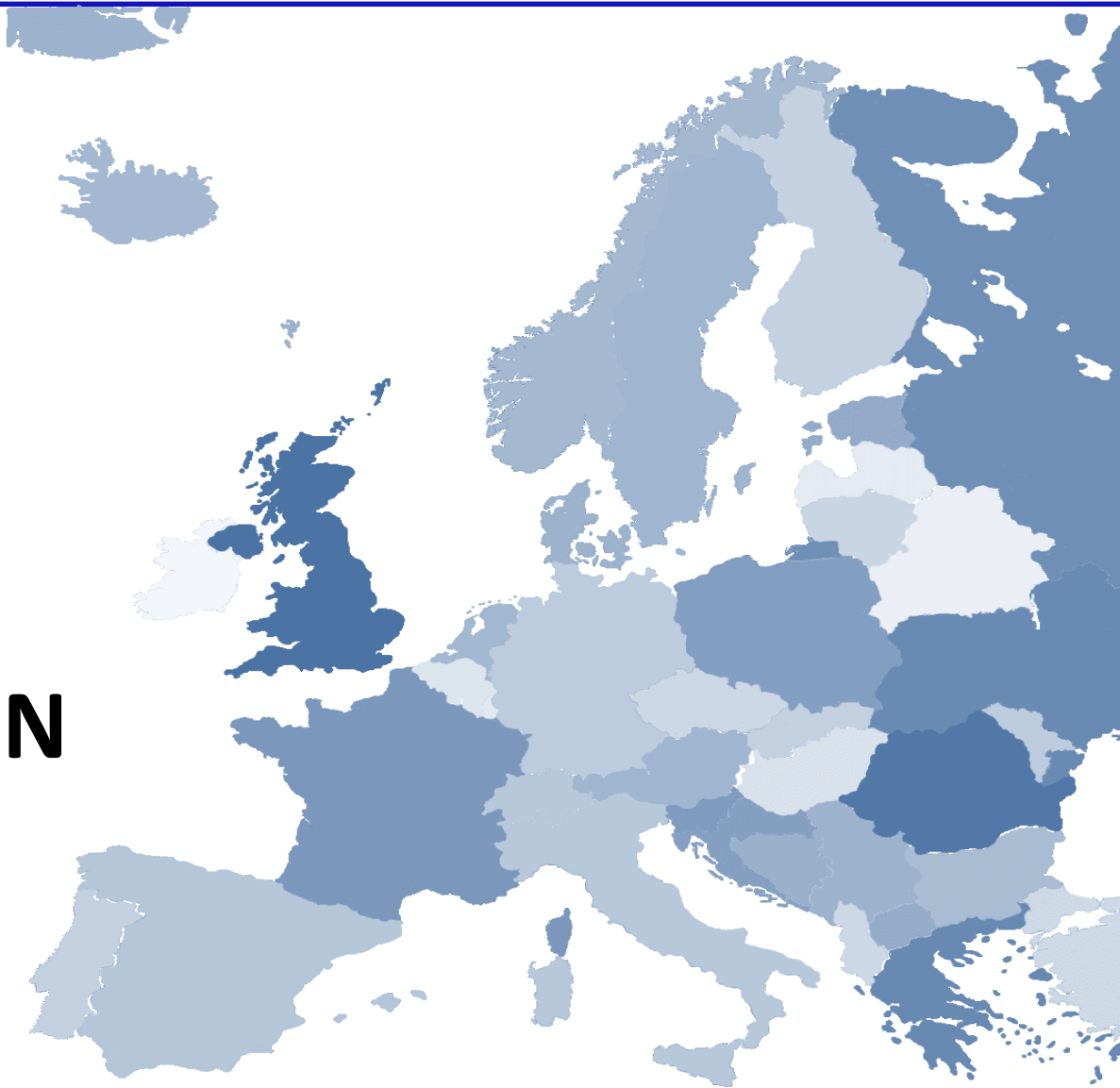
- assess and measure how well an issuer performs on ESG
- are quantitative scores
- used by retail and professional investors.
- are not regulated currently

- CRAs currently take different approaches to ESG topics:
  - Some CRAs provide ESG assessments within their credit ratings
  - Some CRAs provide distinct/separate products

# Options

- Credit ratings to include ESG topics
  - Requirements on rating methodologies: ESMA expectation of quantitative evidence!
  - May increase reliance on CRAs, may blur “credit risk” analysis and “ESG analysis”
- It is premature to call for mandatory inclusion of ESG topics
- ESG assessments to be used for regulatory purposes
  - Users would require information from two sources
  - Increases own-analysis
- Would require registration and supervision of SRAs

# COMPETITION

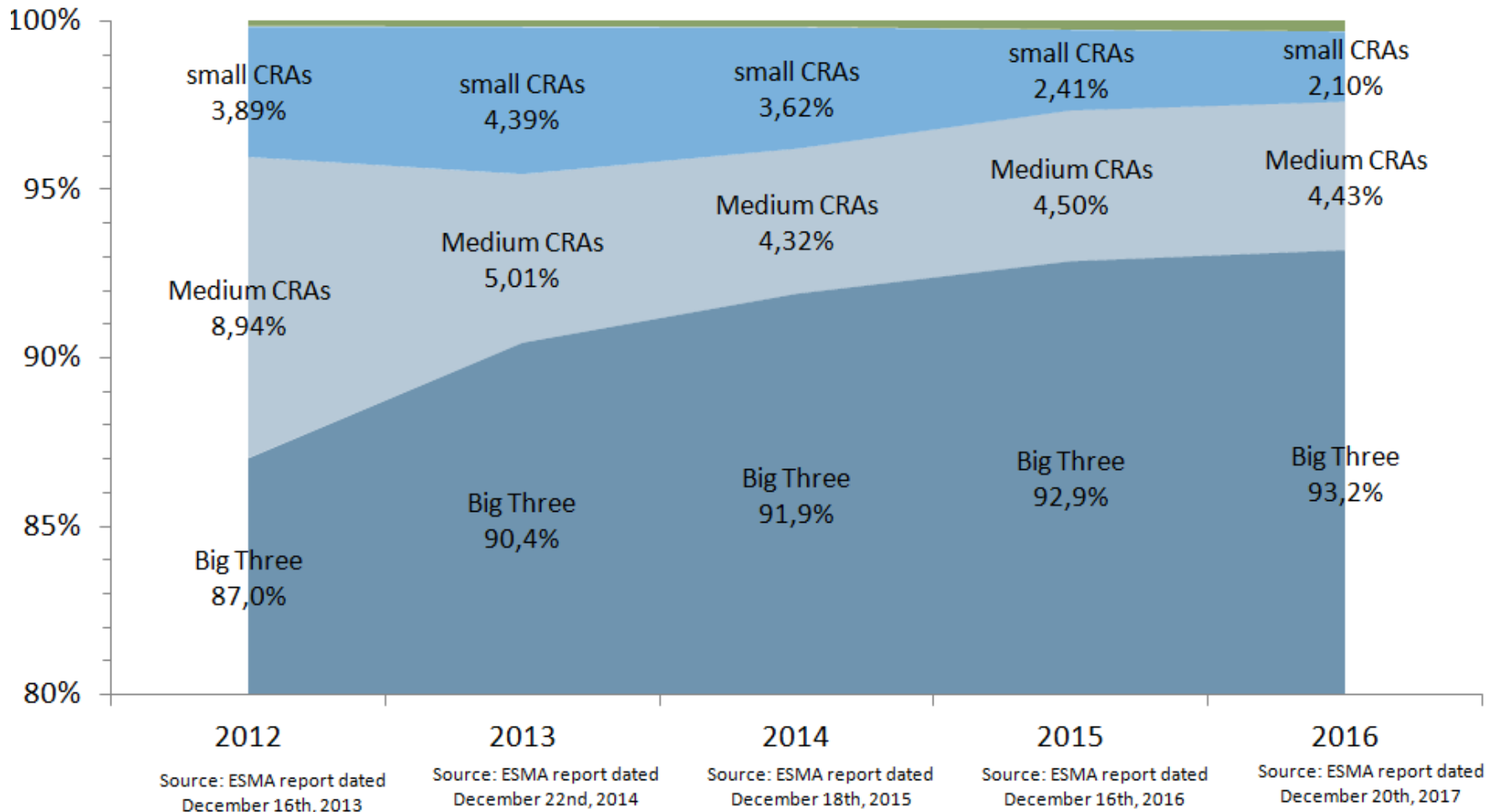


# Competition

- Competition in the CRA market is positive:
  - It drives innovation
  - Increases choices to issuers and impacts on pricing
  - Increases information available to investors/users
  - Reduces reliance and dependence on single CRAs
  - Contributes to financial stability
- EACRA is neutral regarding CRA business-models – the CRA Regulation should not hinder special models
- CRA 3 had as a target to increase competition in the rating market

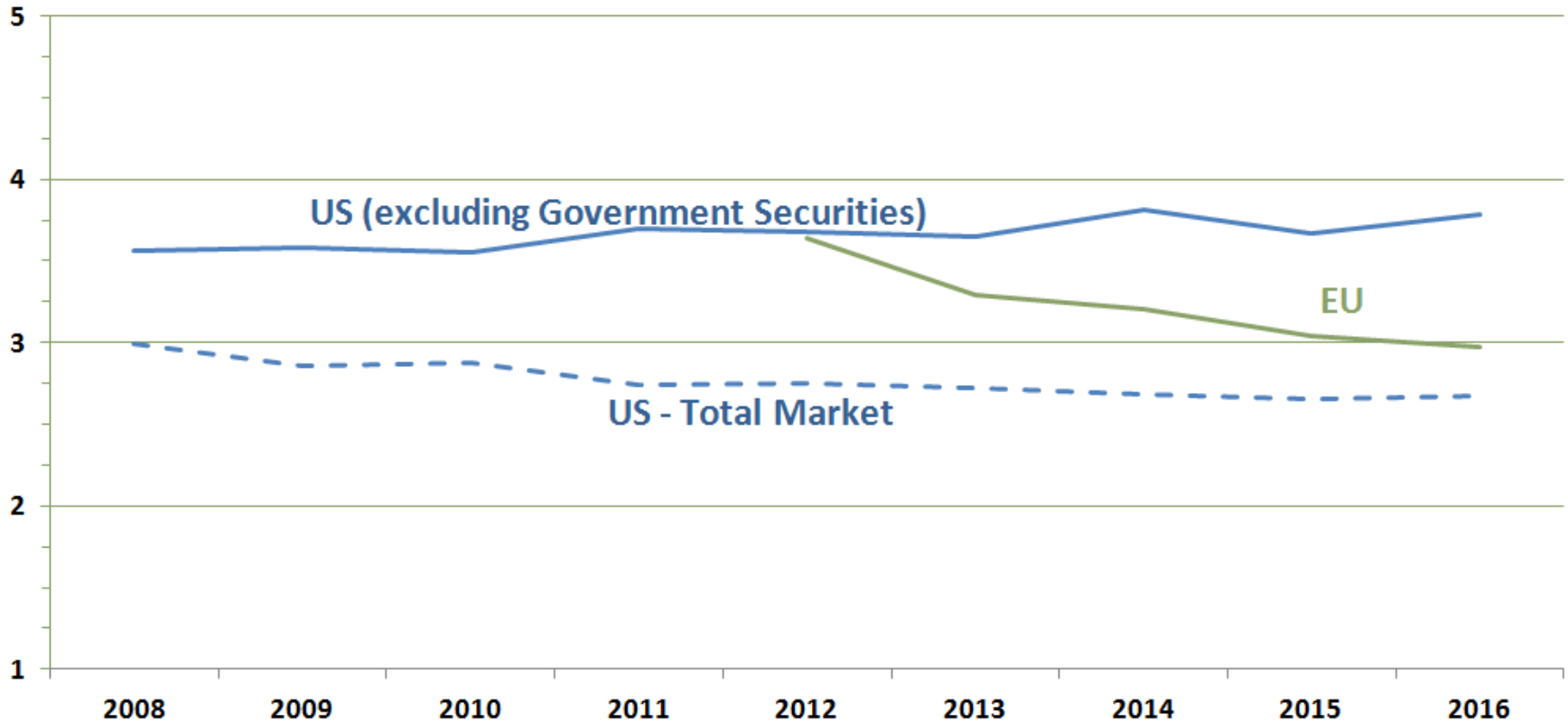
# Market shares

## Market Shares by CRA categories



# Market concentration

HHI Inverses for US and EU rating markets



The Herfindahl-Hirschman Index ("HHI") measures industry concentration and indicates the competitiveness of an industry. The HHI Inverse can be used to represent the number of firms with equal market share necessary to replicate the degree of concentration in a particular industry. A market with an **HHI Inverse of less than 4.0 is considered to be highly concentrated**; a market with an HHI Inverse between 4.0 and 6.67 is considered to be moderately concentrated; and a market with an HHI Inverse above 6.67 is considered to be unconcentrated.

Sources: US SEC Annual report on NRSROs dated December 29th, 2017. EU calculations are based on yearly market shares reports from ESMA for the period 2012 to 2016 (own calculations).



# Promoting competition

- Article 8d (use of multiple CRAs)
  - provision to use small CRA should be made mandatory
  - introduction of fines for non-compliance by issuers at EU level
- Extending scope of minimum of 2 ratings to other market segments
- More proportionality on CRAs
- Guidelines on contractual references to ratings
- Acceptance of European CRAs by ECB as source to the ECAF
- Reciprocity in Third Country equivalence

# Contacts

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