

P R E S S R E L E A S E

The Members of the European Association of Credit Rating Agencies met in Istanbul on September 26th and 27th to discuss important topics on the agenda for the industry: international framework for CRAs, the use and mapping of ratings and the planned implementing standard in Europe (CRA III).

International framework for CRAs

While several important global institutions (including the United Nations, the FSB, IOSCO, the G20 etc) have voiced concerns over the lack of competition in the rating market dominated by few very large players, new legislative frameworks on CRAs in several jurisdictions impose substantial and differing requirements on CRAs to get recognized and registered. We therefore call on all jurisdictions to follow a similar approach to the European Regulation on Credit Rating Agencies, which allows the registration of third country CRAs via the Certification process. This certification framework requires a.o. that the third-country CRA is registered and supervised in its home country and that the European Commission assesses the third-country legal system on CRAs as equivalent to the European one. In order to get certified in Europe, a third country CRAs does not need to establish a legal office or a branch in the European Union.

The European certification framework could be improved in our opinion in three directions: first, the certification of a CRA in the EU does not cover all ratings issued by this CRA as it relates exclusively to entities established or financial instruments issued in third countries - allowing a selective use of ratings issued by a CRA adds complexity for users and therefore reduces competition substantially. Second, given the continuous work of IOSCO on CRAs and the planned international supervisory colleges for CRAs, we think that the certification framework should be expanded to cover IOSCO member countries. Currently, the certification in the EU for third-country CRAs is limited to only 4 countries. Additionally, the recent FSB stock tacking exercise has shown that some countries are not envisaging to introduce a specific regulatory regime with on-going supervision of CRAs – CRAs based in such countries can't get registered in the European Union without taking on substantial costs. Last but not least, the certification process should be based on reciprocity between jurisdictions.

Use of ratings, mapping of Ratings

The recent amendment of the EU Regulation on Credit Ratings Agencies introduces the FSB principle on reducing mechanistic reliance on ratings in Europe, a principle supported by EACRA members. We think that ratings should be carefully used by investors and users and should be read in connection with the rating methodologies of each specific CRA. We further think ratings should be used as benchmark for internal rating models. Additionally, we propose that ratings should be used in parallel to other sources. Eliminating ratings from regulation is not an appropriate route to take. The example of the US shows that finding

alternatives to ratings is by far not an easy task. Additionally given that CRAs are now highly regulated and supervised, why eliminating references to them? Eliminating references to CRA ratings would make the CRA regulatory framework void over time and would mean that similar activities would be done in the unregulated and unsupervised framework.

Cliff-effects and head-behavior associated with ratings were only possible, as references to ratings were limited usually to 2 or 3 agencies. Given that in Europe 24 CRAs are registered or certified with ESMA and that around 100 independent CRAs operate on a global basis, we call on all investors to familiarize with the diversity of CRAs in the market. In this respect, the indication that issuers should involve a smaller CRA when asking for more than one rating, is surely going in the right direction. Enforcement of this provision will have to be ensured in order to give a real opportunity to small CRAs. Reference the good practice in the EU regulation, we call on supervisors to review the references to ratings and to align these with all registered or recognized CRAs.

Given that Credit Rating Agencies use very different rating scales and different definitions of default, EACRA supports “mapping” of ratings to supervisory or regulatory scales. Since there are already other regulatory mappings of rating (ECAI, ECB) and since mapping always introduces some judgmental evaluations, we recommend that such mappings are done with due care and the methodology used to derive the mapping be explained to their addresses – this will allow users to familiarize more efficiently with the ratings of several CRAs.

Implementing measures in Europe

As the European Securities and Markets Authority is currently consulting on its “CRA 3 discussion paper”, EACRA members used the opportunity of the long scheduled meeting to address the 3 draft Regulatory Technical Standards. In view of the Structured Finance Instruments disclosures, EACRA supports that reporting requirements to ESMA should be streamlined as far as possible with other existing or planned reporting framework. With respect to the European Ratingplatform, we propose that workshops with potential users should be organized so that ERP provides the necessary information while not overwhelming the user with technical information. With respect to the fee’s charged by CRAs to their clients, EACRA member support the disclosure of pricing schedules by CRAs as this contributes to more transparency in the market, without limiting each Agency flexibility in pricing mechanism. EACRA will submit a detailed response to ESMA until the formal deadline of October 10th, 2013.

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