Date: December 6th , 2021

EACRA welcomes EC banking package – EACRA Members stand ready to contribute to a wide coverage of European Corporates.

EACRA welcomes the European Commissions proposed Banking package implementing the Basel III reform in Europe. In our view, the ECs overall approach corresponds to a faithful implementation of the globally agreed banking standards taking into account European specificities and the target to contain capital increases on banks. We believe that the proposed timetable (with an expected entry into force by January 2025 and gradual implementation of the output floor until end 2030) allows for both an unrushed legislative process as well as enough time for banks and all other stakeholders to adapt to the new envisaged rules.

With respect to the output floor and the debate regarding the calculation level (top level consolidation versus solo level), we believe that the ECs proposal is creative and represents a compromise between global standards and the European reality with regard to the Home-Host aspects. In the medium term, assuming that the Banking Union and the Capital Markets Union would be fully finalized, from a rating perspective only, the top-level calculation of the output floor represents the right approach.

With regard to corporate exposures, the EC proposal is a hybrid solution allowing the use of a flat preferential risk weight of 65% for externally unrated but investment grade corporates in the calculation of the output floor until 2032[1]. EACRA agrees that such provision avoids “disruptive impacts on bank lending to unrated corporates and provides enough time to establish public and/or private initiatives aimed at increasing the coverage of credit ratings”[2]. EACRA Members stand ready to support any type of public-private initiatives to reach the objective of improving and extending the availability of external ratings for corporates.

However, the transitory phase is far too long, therefore financial institutions will not have any economic interest to use external ratings for corporates during this period[3] – the approach taken will rather constrain the development of the European credit rating market and thereby jeopardize the targets of ”increasing transparency in the EU corporate sector and of fostering the Capital Markets Union” [4].

---

[1] The Basel Committee proposed this approach only for jurisdictions not allowing the use of external credit ratings.

[2] Proposal for a Regulation amending CRR as regards credit risk (…) dated October 2021, page 13

[3] Banks nominating ECAIs need to use the ratings consistently and continuously for the whole asset class. Since high yield issuers in Credit quality 5 and 6 (usually associated with ratings of B+ and below) require a risk weight of 150%, banks have an incentive not to nominate ECAIs as the same issuers would be considered as unrated and therefore triggering a risk weight of only 100%.

[4] Impact assessment accompanying the proposal page 92.

Our members and European rating agencies in general are well positioned to provide an extensive coverage of European Corporates. European credit rating agencies are subject to the same regulatory framework as the Dominant Credit Rating Agencies (CRAs)[5] designed “to contribute to the smooth functioning of the internal market, while achieving a high level of (…) investor protection”[6].

Any European agency may be used by European issuers to address the needs of investors across the whole European Economic area, offering credit ratings on a wide range of European corporate entities with thorough methodological approach and deep knowledge of the sectors[7]. This will in turn lower the cost of capital, facilitate access to finance for MidCaps and SMEs, reduce systemic risks and contribute to financial stability. We therefore call on issuers and investors to consider the offering of European agencies, for example adding additional CRAs to investment mandates, therefore widening the amount of information and perspectives underlying their investment decisions.

About EACRA

The European Association of Credit Rating Agencies (EACRA), set up in November 2009 and registered in Paris, was established to act as a platform for cooperation for EU-based Credit Rating Agencies (CRAs). Our mission is to support and facilitate the compliance of CRAs with regulatory requirements through effective communication, cross-border know how, and the promotion of best practices. In addition, EACRA seeks to promote Credit Ratings and the interests of CRAs across Europe, as well as enhance the financial community and general public’s understanding of Credit Ratings.

---

[5] https://www.esma.europa.eu/press-news/esma-news/esma-reports-annual-market-share-credit-rating-agencies-0

[6] Article 1 of the Regulation 1060/2009 on Credit Rating Agencies

[7] Next to the „issuer-pays“ model where issuers contract a rating agency for a rating, several European agencies also provide ratings under the “investor-pays” model where the rating is made available only to investors paying a fee to access these ratings. As an example, Cerved Rating Agency in Italy predominately operates under this model and provides a unique coverage of Italian Corporates, including small companies.