

Date: March 18<sup>th</sup>, 2022

To  
S&P Global Ratings  
Submitted via Web

**Reference : Request For Comment: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions**

Dear S&P Global Ratings,

With reference to your above Request for Comment dated December 6<sup>th</sup>, 2021<sup>1</sup>, we are pleased to hereby submit the views of our association for your kind consideration.

Before providing our views, we would like to recall the important principle of “non-interference with content of ratings or methodologies” as clearly stated in Article 23 of the EU Regulation on Credit Rating Agencies<sup>2</sup>. While this article targets public authorities in the EU, we believe that this principle equally applies to all CRAs and also to our association. We therefore refrain from commenting the numerous technical aspects of your proposed criteria and exclusively comment on § 187 relating to other CRAs ratings which states the following:

**Rating input: CRA mapping**

187. If we have determined that a mapping is possible for a CRA (see our criteria for mapping a third party's internal credit scoring system), then we may determine the corresponding rating input by applying the statistical analysis described in step 3 of our mapping criteria to the credit rating scale of the other CRA. All CRAs are eligible for consideration when assessing the underlying rating input. We have completed a mapping of Moody's and Fitch ratings in scope of this section as of the date of publication. When we apply the criteria relating to other CRAs, we look to the long-term Moody's or Fitch issue rating and apply the following adjustments:

Corporate and government ratings: We lower the rating by one notch for investment-grade ratings and by two notches for speculative-grade ratings to determine the rating input. When the issue is rated by both CRAs, we use the lowest of all the notched ratings.

Structured finance ratings: We lower the rating, in general, by three notches if it is rated by only one of the two CRAs. When the issue is rated by both CRAs, we may lower the lowest rating by two notches.”

<sup>1</sup> Available at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2783106>

<sup>2</sup> Article 23 states the following: “In carrying out their duties under this Regulation, ESMA, the Commission or any public authorities of a Member State shall not interfere with the content of credit ratings or methodologies.”

First, we welcome that “all CRAs are eligible for consideration when assessing the underlying rating input”. We recommend that this should only apply to CRAs registered or recognized with their competent authorities according to applicable local legislation as CRA. Adding this clarification will ensure that the input used in your methodology corresponds to the high legal and regulatory standards expected by CRAs targeting to “enhance the integrity, transparency, responsibility, good governance and independence of credit rating activities”<sup>3</sup>.

On the other hand, we are concerned with your approach regarding the treatment of other CRAs ratings as stated above. While you only mention the ratings produced by Fitch or Moody’s, we assume that a similar approach would apply to other CRAs<sup>4</sup>.

In order to reduce the burden on your side to map the credit ratings from all other CRAs<sup>5</sup>, we propose referring to the mapping of credit ratings to regulatory credit quality steps as provided for by the European Supervisory Authorities (“ESAs”), based on which a mapping between your ratings and all other CRAs can be derived. As you know, the ESAs use a detailed quantitative and qualitative methodology to derive these mappings<sup>6</sup>. Additionally, the ESAs regularly monitor the mapping and if required modify these (eg to include newly registered CRAs or to include new rating scales used by CRAs)<sup>7</sup>. Furthermore, the ESAs mapping is not a benchmark but drives regulatory use of credit ratings by financial markets participants. Finally, we believe that the ESAs mapping corresponds the requirements of Article 8 (2) of the EU Regulation on CRAs requiring CRAs to “adopt all necessary measures so that the information it uses in assigning credit ratings and rating outlooks is of sufficient quality and from reliable sources”.

Using the mapping of credit ratings from the ESAs has the important advantage of being compliant with the requirements of Article 8 (4) of the EU Regulation on CRAs<sup>8</sup>. Your currently proposed approach to down-map the ratings produced by other CRAs results in a systematic departure from existing credit ratings prepared by another CRA and therefore contradicts the legal requirements applicable in Europe.

Last but not least, your proposed approach may be considered as uncompetitive: an issuer having assets rated by other CRAs, may be forced to request a rating of these assets from your side in order to avoid the currently envisaged down-mapping of other CRAs rating.

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<sup>3</sup> Extract of Article 1 of the EU Regulation on Credit Rating Agencies.

<sup>4</sup> Given that the number of outstanding from other CRAs is far lower, we proceed from the assumption that the down-notching applied would even be stronger.

<sup>5</sup> As of today, next to your agency 23 CRAs are registered with ESMA and 3 additional are certified with ESMA. See: <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>

<sup>6</sup> The methodology applied by the ESAs is available here: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2016.275.01.0003.01.ENG&toc=OJ:L:2016:275:TOC](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.275.01.0003.01.ENG&toc=OJ:L:2016:275:TOC)

<sup>7</sup> Since the introduction of the mapping of ECAI ratings in October 2016, the ESAs have updated the mapping of ratings already 3 times: <https://www.eba.europa.eu/regulation-and-policy/external-credit-assessment-institutions-ecai/mapping-under-crr>

<sup>8</sup> This article states the following: “Where a credit rating agency is using an existing credit rating prepared by another credit rating agency with respect to underlying assets or structured finance instruments, it shall not refuse to issue a credit rating of an entity or a financial instrument because a portion of the entity or the financial instrument had been previously rated by another credit rating agency. A credit rating agency shall record all instances where in its credit rating process it departs from existing credit ratings prepared by another credit rating agency with respect to underlying assets or structured finance instruments providing a justification for the differing assessment.”



We thank you for the opportunity to provide our comments and remain at your full disposal for any clarifications or additional information.

### **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.