To
European Securities and Markets Authority

Submitted via ESMA website

March 31st , 2015

Reference: ESMA call for evidence “Competition, choice and conflicts of Interest in the CRA Industry date February 3rd, 2015

Dear Sirs,

With reference to the above call for evidence, we are pleased to hereby submit the views of our association, currently representing 9 ESMA registered CRAs and 1 ESMA certified CRA.

We have submitted our response within the template provided for “Credit Rating Agencies”. Since your response template included the logo of your esteemed institution, in order to avoid any misrepresentation, we are republishing here our response.

Sincerely yours

Thomas Missong
EACRA President

Adolfo Estevez Beneyto
EACRA Secretary General

Q1: Please provide the name of your organisation.

European Association of Credit Rating Agencies (“EACRA”).

Q2: Please explain how you seek payment for the credit ratings you issue and whether you would consider issuing credit ratings under alternative models in the future.

We currently see a number of business models ranging from issuer-pays to investor pays, mixed models, new entrants model, hybrid models and special models. Some CRAs operate under different business models depending on the market segment under consideration.
We think that each CRA has choosen its business models according to its own market assessment and strategy. We think that CRAs should remain free to choose their business model and request that the regulation should not impose one model as a benchmark (with a limited list of exemptions for other models).
If EU policy makers were to extend current provisions affecting demand for ratings (eg two ratings for SFI, Art. 8d) or if new measures are proposed (eg in view of the Capital Markets Union), CRAs will assess the new framework and potentially enter new market segments or geographies.

Q6: **Do you have more information about how other CRAs approach their business development overall and specifically how they develop issue and review credit ratings than you did before 2010? If so, please explain:**

(1) where this information comes from;

We think that the Transparency reports according to the CRA Regulation provide interesting information on each CRAs legal structure, organisation, revenues and staff employed.

(2) what impact it has on your overall business development strategy; and

Similar to any other industry, we think that CRAs are aware of the exisiting competition steeming from other registered or certified CRAs.

(3) what impact it has on how you issue and review credit ratings?

The CRA Regulation clearly requires Chinese walls between the business development activities and the issuance/review of credit ratings – we therefore think that market developments and business development activities should not impact on the on-going issuance of ratings.

Q7: **Please explain whether you issue unsolicited credit ratings, giving reasons for your answer. If your answer differs for different asset classes, please explain why.**

"unsolicited credit ratings" are ratings assigned by a CRA other than upon request [of the issuer]. We note that CRAs assign "unsolicited credit ratings" for very different reasons:

- some CRAs operate exclusively under the "investor-pays" model where the ratings are contracted by investors/users of ratings. These CRAs rate whole asset classes.
- Some CRAs, especially several new entrants, have assigned unsolicited credit ratings to mid-sized stock listed companies. We think that such a wider coverage is beneficial and important as it allows those companies to assess where they stand relatively to other ones.
- Some CRAs assign unsolicited credit ratings on a selective basis only. In accordance with the CRA Regulation, we note that several Sovereigns are rated on an unsolicited basis.

Q8: Please explain what impact unsolicited ratings have on competition between CRAs, giving reasons for your answer.

As EACRA, we are neutral regarding business models of CRAs but think that the diversity of business models is positive for financial stability as a whole. Similarily to the diversity in business models in the banking industry has helped to smooth the impact of the financial crisis, we think that the same applies to the CRA industry.
From a practical point of view, "unsolicited ratings" are not necessarily in the public domain (as these ratings need to be acquired), so other CRAs are not always aware of the existence of these ratings.
Since "unsolicited ratings" are not contracted by the issuer, these ratings are not covered by Article 8c (double rating of SFI), Article 8d (use of multiple credit rating agencies) and therefore do not impact on competition in the field of solicited ratings.

Q9: Please explain whether the requirements of the CRA Regulation for issuers, originators and sponsors to make information available through a website, including information regarding the creditworthiness and performance of structured finance instruments, should be extended to other asset classes, giving reasons for your answer. If so, please explain to which products this obligation should be extended and what impact such an extension would have on your business, if any.

As the central website on SFI is yet not available, it is hard to assess the impact such a central disclosure site will have.
In the US, a similar provision exists for quite some time, where contracted NRSROs needs to provide access to the underlying information to other NRSROs. We understand that this provision did not result in additional ratings, as several NRSROs have issued only "opinions". Additionally, given the high cost of treating the whole underlying information, NRSROs have used this provision on a limited basis only.
Whether the SFI website will be directly used by investors is hard to guess. While we expect that very large, higly sophisticated investors may access the information directly, we think that the majority of users will still require an independent and external assessment eg by a CRAs.

With respect to the extension of this provision to other sectors, we think that the Top-level Sovereing market is a good pick as the number of sovereigns is limited while the asset class is very large.
As financial institutions are already reporting substantial information (eg FINREP), having such information centrally available in a standardized format may be equally beneficial.
For non-financial corporates, we think that the principle of proportionality needs to be taken into account.

Q10: Please explain what impact the following obligations on issuers have had on your business from 2013 to present:

(1) **to seek two or more credit ratings for structured finance instruments;**

Based on the Transparency reports for 2012 and 2013, we note that one agency was able to increase its revenues in the SFI and managed to increase its coverage. None the less, the dominance of the the largest two CRA remains.

(2) **to consider using a CRA with less than 10% market share where two or more CRAs are to be appointed.**

We think that awareness by issuers and financial intermediairies is currently highly limited. Additionally, as the Art 8d provision is only a comply-or-explain provision, this requirement had no real impact yet.

Q11: Please explain whether these obligations should be extended to some or all other rated instruments, giving reasons for your answer, and explaining which instruments where relevant.

Article 8d already applies to all market segments. As the current "comply-or-explain" character did not materialize in any real change, the strengthening of the requirements should be envisaged.
In order to contribute to more transparency and better investor protection, we think that the Art 8c obligation could be extended to other markets taking into account the debt volume issued. For instance, it is current market practice that large transactions (EUR 500 mln or more of issuance) have 2 or more ratings.

Q12: In cases where you are aware that issuers seek multiple credit ratings for particular instruments, please explain whether you use the same strategy to compete with other CRAs to be the provider of the first credit rating as to provide the second or third rating, giving reasons for your answer.

Except the Structured finance market where issuers need to request at least 2 ratings, CRAs are usually not aware whether the issuer will select one or more CRAs.
Generally speaking, CRAs compete for gaining the rating contract. For CRAs, it is not material whether it is the "first" or the "second" rating, since all contracted CRAs have an equal footing afterwards.

Q14: Please explain whether a 4-year contract term is appropriate for this rotation provision, and if not, what would be an appropriate length?

We think that a 4 year contract is rather a short time frame (as a benchmark, the contract durations for audit companies is far longer).
As an alternative approach to the "cooling off period" after the end of the contract period, we propose that CRAs should still be allowed to rate but these ratings would not be included in the minimum count.

Q15: Please explain whether mandatory rotation should be extended to other asset classes. If so, please:

(3) explain whether, and if so why an obligation should be introduced for CRAs to provide a handover file to the incoming CRA at the end of the maximum contract term.[7]

We don't think that CRAs should provide a handover file to the incoming CRA, we rather recommend that the incoming CRA requests the information from the issuer so that the incoming CRA can make its own assessment based on its own methodologies and processes.

Q20: Please explain whether you would be able to start offering credit ratings for asset classes not currently rated by your CRA if you wanted to diversify your business. If so, please explain what resources would you need and estimate how long would it take to enter the market for a new asset class? If not, please explain why this would not be possible.

We note that in the recent past several CRAs have entered new business segments. We think that such a step corresponds to a very high investment for the CRAs and spans over the medium-term before generating revenues.
Setting up new methodologies requires an in-depth analysis and evaluation of risk drivers of the concerned market segments and may take a year or more. In view of the requirements on new rating methodologies, the effective application takes again several months and the issuance of ratings can start only thereafter.

Q23: Should further measures be taken to stimulate competition between CRAs overall and/ or in respect of the rating of particular types of asset class such as structured finance instruments? If so, please explain what measures could be taken without having a negative impact on the quality of credit ratings.

Given the current market structure, EACRA welcomes further measures to increase competition in the rating market. In order to allow all market participants to adapt to the new provisions, we propose that these should be phased in over time.

5.9 Other evidence

24. If there is any other evidence or information that you would like to bring to ESMA's attention, please present it here.

In view of the CRA 3 goal to increase competition in the rating market, we kindly ask ESMA and the National Competent Authorities to present guidelines for issuers regarding Article 8 d on the use of multiple CRAs.

Since the CRD IV and the Solvency II legislations both grant automatic recognition as ECAI to all ESMA registered or certified CRAs (and NCB exempted from registering under the CRA Regulation) in order to increase competition, we call on ESMA, EBA and EIOPA to create a level playing field for all CRAs and to avoid introducing additional regulatory filters via the mapping of ratings.

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 and 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).