ESMA
European Securities and Markets Authority

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Additional Information

Level 1 Regulation
Credit Rating Agencies Regulation (CRAR) Regulation (EC) No 1060/2009

Topic
CRA Regulation

Subject Matter
Article 8(7) – Error Reporting (ESMA33-5-87 Q&A 8)

Question
(a) What types of errors should be reported to ESMA and all affected rated entities?
(b) Does Article 8(7)(a) require a CRA to notify ESMA and all affected rated entities of an error which does not lead to a change in any issued credit rating?
(c) Are CRAs allowed to notify the errors in rating methodologies to the affected entities in the press release or credit report published after the re-rating exercise?

ESMA Answer

13-07-2023

Original language

(a) The Regulation refers not only to errors in rating methodologies but also in their application. ESMA understands this to include errors in methodologies, models and any document contributing to the use and application of a rating methodology. It should also include errors concerning these documents, such as errors caused by their application or the process they describe. This includes cases of incorrect inputs or incorrect analysis. For example, ESMA considers an error resulting from a model having been implemented in a way that does not comply with a methodology[1] to constitute an example of an error in the application of a methodology. Consequently, such an error should be notified to ESMA and all affected rated entities without prejudice to point (b).

(b) ESMA considers that an error should be notified to ESMA and all affected rated entities pursuant to Article 8(7)(a) in cases where the error triggers a need to review an issued credit rating, regardless of whether the review results in a change of that credit rating.

(c) Where a CRA becomes aware of errors in its rating methodologies or in their application, the CRA shall notify those errors to ESMA and all affected rated entities immediately, as soon as it is able to explain the impact on its credit ratings[2]. Notifications cannot be postponed to the press release or credit report published after the re-rating exercise.

Where errors have an impact on a credit rating, CRAs should publish an explanation of the error and its impact on individual ratings on their public website so that this information is easily accessible by all users of credit ratings.

If a CRA has to go through the review and re-rating process described in paragraphs a) to c) of Article 8(6) of the CRA Regulation and subsequently go on to issue a new credit rating, the CRA should as a good practice explain in the relevant rating report/press release that such credit rating was reviewed as a consequence of an error and refer to the publication made on its website according to Article 8(7)(b) of the Regulation.

[1] Errors resulting from a model having been implemented in a way that does not comply with a methodology include, for example, an analytical error, an input error, an error in the code of a model or an error which occurs because the wrong version of a model was used in the rating process.

[2] CRAs shall notify ESMA using the item 37 templates available in Annex II of ESMA33-9-295 Guidelines on the Submission of Periodic Reporting to ESMA by Credit Rating Agencies, 7 April 2021 available at: https://www.esma.europa.eu/sites/default/files/library/esma_33-9-295_guidelines_on_the_submission_of_periodic_information_to_esma_by_credit_rating_agencies_.pdf