

European Securities and Markets Authority, ESMA
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– submitted online via ESMA's website –

20 June 2011

Comments of the EAPB on the ESMA call for evidence on the assessment of compliance of credit rating agencies with Article 8.3 of the Credit Rating Agencies Regulation (1060/2009/EC)

Dear Madam or Sir,

The European Association of Public Banks, EAPB, welcomes the opportunity to comment on your call for evidence on the assessment of compliance of credit rating agencies (CRA) with Article 8.3 of the CRA Regulation. As not all questions affect our members to the same extent, you will find comments on selected questions in the following.

Answers to selected questions:

Q7. The credibility of credit ratings depends on the validity of the underlying methodologies and models. Users of ratings as well as issuers have to be able to understand how a certain rating is derived. Transparency is the most important requirement for rating methodologies.

CRA's should be required to outline and explain the underlying parameters and their effects within the model transparently and comprehensibly. This would allow issuers and users of credit ratings to acquire the needed understanding. CRA's should consult changes to their methodologies and models with market participants before introducing them. Data requests should only take place after the methodologies have been developed and published. The requested data should be limited to what is necessary for the model. A general data collection by CRA's must be avoided.

Only agency employees with adequate education, expertise and experience should be able to develop and apply rating models since such a development necessitates an understanding of the respective sector, the regulatory environment, and mathematical and theoretical skills. Analysts should take qualitative data such as bank-specific features into account.

CRAAs should be required to follow a certain time frame. Especially in the event of a change to methodologies or models, CRAAs should be obliged to publish information at a specific time. This will make the process for all market participants more predictable and reliable. An arbitration board could solve differences between market participants and CRAAs. Public consultations by CRAAs are not an effective mean to solve those differences.

The development and application of rating methodologies should follow a transparent and structured process that involves a public consultation and a response to criticism by market participants. Assumptions, methodologies and conclusions should be applied consistently to issuers or financial products that are comparable. The credibility of credit ratings depends on their comparability across sectors and asset classes. A special treatment of specific ratings should be avoided.

Continuity should be a requirement for ratings and their methodologies and for analysts and agency employees. Whereas ratings and their methodologies should be reviewed frequently and adjusted, agency employees should undergo a frequent assessment to ensure the highest quality of the overall rating process. Changes to methodologies that lead to changes in credit ratings should be communicated clearly and timely. The basic structure of the underlying rating model should remain unchanged for an extended period to guarantee the ratings' stability and credibility.

Methodologies and models should be regularly validated to ensure the ratings' validity and reliability. Back-testing results and the underlying models should be documented and published.

Q8. CRAAs should be obliged to consult rated companies before new or revised rating models are put in place. This provides issuers with the opportunity to validate assumptions and conclusions before they are affected by them. CRAAs should also be able to incorporate ratings of other agencies and internal ratings that have been approved by the national regulator in their rating methodologies.

Q10. The implementation of all CESR guidelines is necessary to meet the requirements of Article 8(3). It will enhance ESMA's ability to assess the compliance of the CRAAs' process of developing, applying and evaluating rating methodologies and models with the standards put forward in Article 8(3).

Q11. A frequency of one year is adequate. More frequent assessments would not result in greater rating quality. Issuers and the regulator should be able to claim a new assessment should the CRA omit reassessing the previous rating. The evaluation of the delivered date, the meetings with management and the rating decision by the rating committee should take

place in a timely manner to ensure that all information leading up to the rating decision are up to date.

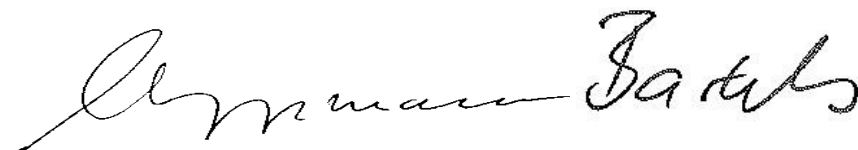
Q12. The implementation of the CESR Guidelines should not lead to any ratings changes. It will not change the content of the rating methodologies and the rating process and will not impact the actual credit ratings. Analysts should remain able to include bank-specific and qualitative data into their evaluation. A change in requirements could possibly lead to rating adjustments.

Q13. The implementation of Article 8(3) should not bring changes to the business environment and competitiveness of banks. The banking market should remain unaffected.

Q14. The benefits of implementing the CESR Guidelines include a more transparent rating process and a higher quality of the rating. This will enhance the credibility and validity of the ratings among investors and should increase competition among CRAs. Implementing the requirements of the regulation of CRAs consistently across EU-members would protect all issuers against CRAs' violation of the regulation's requirements. The costs will be partly borne by issuers. Fees should rise due to the high administrative costs for CRAs.

Should you have additional questions or comments, please do not hesitate to contact us.

Kind regards,

The image shows two handwritten signatures in black ink. The signature on the left is 'Henning Schoppmann' and the signature on the right is 'Boris Bartels'.

Henning Schoppmann
EAPB

Boris Bartels
EAPB

The European Association of Public Banks (EAPB) represents the interests of 35 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 100 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.