



NATIONAL CREDIT RATING AGENCY

An Affiliate of Moody's Investors Service



GLOBAL
RATINGS

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In view of the merger of Global Ratings AD and National Credit Rating Agency AD, the following comments should be regarded as comments on behalf of the newly established Agency for Credit Ratings and Analysis AD, Bulgaria.

Ref: CESR's Consultation paper on Guidance on Common Standards for Assessment of Compliance of Credit Rating Methodologies with the Requirements set out in Article 8(3)

Dear Sirs,

Having analyzed the CESR's Consultation paper on Common Standards for Assessment of Compliance of Credit Rating Methodologies with the Requirements set out in Article 8(3), ACRA AD would like to submit the following comments:

1. According to p. 16 f. of the present Guidance *"Details of how the frequency of the surveillance/performance reports on rated issuers/transactions are linked to the revision of credit rating methodologies, related criteria and assumptions;"*

What is meant by surveillance/performance reports here? Is it the same as rating reviews and monitoring reports mentioned elsewhere in the document?

2. According to p. 16 h. of the present Guidance *"A description of the interrelationship between the assumptions/criteria of a credit rating methodology and the volatility of ratings over time;"*

What kind of interrelationship are you looking for – statistical or descriptive? Such a relationship may be impossible to extract from the short rating history of most of the smaller rating companies.

3. According to p. 16 i. of the present Guidance *"Information to demonstrate, through self-certification and appropriate proof (e.g. information on academic background and technical trainings received), that members of the rating teams and committees have the appropriate and required skills –including quantitative expertise and experience in issuing credit ratings–, and that these skills are improved over time through adequate training programs;"*

Do you plan to apply some minimum education/training criteria and if so, what would those be? Otherwise, without any specific criteria, any judgement would be rather subjective.

4. According to p. 16 l. of the present Guidance *"Quantitative evidence of the discriminatory power of the credit assessment methodology, using statistical techniques such as default studies and transition matrices to demonstrate the robustness and predictive power of credit assessment over time and across different asset classes."*

Could you please advise whether this is applicable for newly established CRAs or CRAs with less experience in certain asset classes? What is the time period mentioned?

In our short history, we do not have a single default by a rated entity. Therefore, no quantitative evidence can be supplied to demonstrate robustness and predictive power. How would transition matrices provide any evidence of discriminatory power of ratings?



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They simply show the evolution of an entity's ratings over time. Please elaborate what you would like to see.

5. According to p. 18 c. of the Guidance *"Details of how the CRA ensures that assumptions, models, macro-economic predictions/outlooks, etc are applied consistently in the development and review of methodologies."*

In essence, this is the same as 16. g. and 16. k. – all three refer to how a CRA ensures that methodologies reflect changes in inputs into models (macroeconomic data, assumptions, etc.) and these are consistently applied and reviewed when deemed necessary. We believe these should be combined in one requirement, otherwise it will require us to write three times on the same subject.

6. According to p. 18 e. of the Guidance *"Written procedures for promoting a consistent approach to applying a methodology across different ratings related to it;"*

The requirement does not make sense to us. A methodology related to consumer finance companies, for example, is applied to consumer finance companies only. What is meant by "different ratings related to it"?

7. According to p. 20 a. *"A detailed written business plan to cope with loss of key staff or any business disruption;"*

In a company of less than 10 people, having a detailed business plan to cope with key staff loss or business disruption is meaningless. You cannot have a ready solution for such a situation. You find a solution (hire a new person and train him/her or redistribute the work among existing employees). This is too cumbersome a requirement.

8. According to p. 20 b. *"Information on the monitoring program to assess the performance of the methodologies employed;"*

What is meant by monitoring program?

9. According to p. 20 f. *"Written procedures and documentation, test plans and test scenarios as well as other procedures for addressing unforeseen events in an emergency to allow for the continuous assessment of rating methodologies."*

This requirement applies more to a nuclear power plant (test plans, test scenarios, emergency) than to a rating agency. What would be "unforeseen events in an emergency"?

10. According to p. 21 a. of the Guidance *"They have well-documented back-testing and rating validation policies and procedures that they adhere to."*

Please define the term "back-testing" and the tests envisaged in p.21, as well as the type of the documentation needed for it to be considered well-documented. We consider that the CRA should also be informed of the date of receipt of the documentation by the competent authorities from CESR.



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11. According to p. 21 c. of the Guidance *"They have sufficiently knowledgeable and independent employees, supported by adequate resources, that are separate from and do not report to the lead analysts and/or rating analysts that are responsible for the back-testing and rating validation/ implementation."*

Please define "independent employees". We also believe that this imposes a burden on CRAs with less employees and should not be applicable for CRAs applying for exemption from complying with the requirements of points 2, 5 and 6 of Section A of Annex I and Article 7(4) of the Regulation.

12. According to p. 22 a. *"Written policies and procedures describing the content of the validation process and in particular how this activity is related to possible changes of methodologies, for each asset type."*

What do you mean by validation and back testing from a practical standpoint? For a rating agency with limited history (5 or so years) this would be absolutely inapplicable – first due to short time history and second, due to small sample size in terms of number of ratings.

13. According to p. 22 d. of the Consultation paper *"Details of the methods employed by the CRA's in their quantitative and qualitative assessments to confirm robustness, discriminatory power, and consistency of their credit assessment over time and across different market segments"*

And p. p. 22 e. of the Consultation paper *"Historic information on validation and back-testing of methodologies and models"*

Please advise on the time period envisaged.

We would be pleased to assist you in any way we can.

Yours sincerely,

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