



COMMENTS AND REPLIES OF PSR RATING GERMANY ON THE CONSULTATION PAPER:

REGULATORY TECHNICAL STANDARD ON THE ASSESSMENT OF COMPLIANCE OF CREDIT RATING METHODOLOGIES WITH REQUIREMENTS SET OUT IN ARTICLE 8(3) OF REGULATION (EC) No. 1060/2009 (REFERENCE: ESMA/2011/303)

October 21st, 2011

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1 MANAGEMENT SUMMARY AND GENERAL COMMENTARY ON CONSULTING PAPER

- (1) PSR RATING is a registered CRA according to the Regulation No. 1060/2009 since May 2011. As one of the smaller CRAs in the EU, the rating agency is very much focused on the regulator's intentions how to execute the regulation by considering business models of CRAs in smaller dimensions.
- (2) The consultation paper concretizes the way to assess the rating methodology of a CRA by the regulator.
- (3) The rating methodology is a key factor of the CRA's quality in their rating evaluations. To focus on this key factor in order to execute the Regulation on CRA is therefore easy to understand. The consultation paper defines the extent of information provided to the regulator in order to assess the rating methodology. It also defines certain minimum requirements on a rating methodology.
- (4) The terms expressed in the RTS to analyze the strength of a methodology seems to be inadequate since it is very much focused on statistical proving. Statistics are a very important factor in developing and evaluating a rating system but it is only a part of the decision of a rating agency, how a methodology has to be adopted. For instance: the statistical focus used for the quantitative validation of a rating methodology in 2011 will base on financial statements of 2009, in smaller cases of 2010. These financial statements and there evaluation will be very much influenced by the financial crisis of this period. This situation cannot be applied to the current evaluation of corporates in a period of 2012, where the crisis has been almost overcome. Therefore the experience, expertise and scientific support of a CRA are important factors for decision of weightings and calibration regarding quantitative criteria of the methodology. PSR RATING support the regulator's aim to be able to ensure the quality of rating methodologies, however the designed details in addressing this regulatory task narrows the approach to evaluate a methodology and may lead to disgrace a methodology of CRA.
- (5) It is important to point out that the rating methodology is a sovereign issue of the CRA. The RTS draft may implicate, with the extent of its definition in minimum requirements on the methodology, that the regulator does influence the processes of validation or the generation of methodology in an indirect way. This bares a high risk for smaller CRAs to lose acceptance due to the over-reliance on the controlling of the methodology.
- (6) The missing definition of "all information relevant" bares a high legal risk to the CRAs in the way it is expressed in the consultation paper: We see the need in declaring that the CRA will define the relevant information which will be needed in there rating approach. The regulator is able to control the results through the regular reporting especially with CEREP.
- (7) The general impression of the consultation paper implicates that the construction of small-sized rating agencies is not taken into account. Against the background that the Regulation No. 1060/2009 identifies the need for a different approach for smaller CRAs by granting exceptions for them, the general follow-up after launching the regulation seems to overview this issue, also in the current consultation papers.

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2 SPECIFIC REPLIES ON RAISED QUESTIONS

Q1: The list of requirements is highly focused on methods that are statistically to prove. As mentioned in I.(4) we see the need to widen the approach to secure the quality of a methodology by the CRA and to reduce the risk that the requirements mentioned do not overweight statistics in comparison to the influence of expertise, experience and scientific support.

Q2: In this issue, the requirements meet the individuality of CRAs from the perspective of PSR RATING.

Q3: In this issue, the requirements meet the individuality of CRAs from the perspective of PSR RATING.

Q4: The RTS draft on requirements on back-testing goes in the line of Q1. Referring to Q1 again, statistics are an important factor for the rating methodologies but are not fully covering the rating approach of CRAs. In this context, the proportion of the CRA and its dimension in executing its methodology has to be taken into account. To ensure the quality of a rating system adds also reporting and documentation issues to the processes at the CRA. Against this background the cost factor for a smaller CRA can have strong negative impact. However, the requirements stated in the RTS will support the supervision by setting standards that focus both supervisor and CRA on the relevant factors to communicate under regulation.

Q5: In addition to the commentary mentioned in Q4, it shall be emphasized that smaller CRAs can be again divided in to two groups: group independent CRAs (ex. PSR RATING) and smaller CRAs within a group of companies (e.g. Euler Hermes Rating). This constellation may have strong impact in the CRA's financing and investing. Under this perspective the cost factor has even a bigger dimension that just focus on turnover or employees.

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