



**Comments on  
the Guidance on Registration Process, Functioning of Colleges, Mediation  
Protocol, Information set out in Annex II, Information set for the application for  
Certification and for the assessment of CRAs systemic importance**

December 4, 2009

Dear Sirs,

Having analysed the CESR's Consultation paper "Guidance on Registration Process, Functioning of Colleges, Mediation Protocol, Information set out in Annex II, Information set for the application for Certification and for the assessment of CRA's systematic importance", NCRA would like you to consider the following comments:

**General Comment:**

The degree of rules and procedures elaborated in the document is overwhelming for, we guess, all of the CRAs operating in Europe today apart, possibly, from the big three CRAs. No business organisation of less than 15 employees can bear the cost of having all these functions required by the regulation.

Moreover, the guidance document is focused extremely heavily on procedures and lacks any mention of one key issue: how are the submissions of CRAs to be evaluated (what are the criteria, is there a "pass" threshold, what is the basis of evaluation, etc.).

**Specific Comments:**

**II. GUIDANCE ON THE REGISTRATION PROCEDURE**

**Q4: Do you agree with the proposals for the language regime of the application?  
Please state your reasons.**

**C. Language of the application for credit rating agencies established only  
in one Member State and whose college is composed only of the home competent  
authority of that Member State**

Do we understand correctly that the application for registration could be provided only in Bulgarian language if only the Bulgarian regulator participates in the college, and if so, what should be submitted to CESR in order for CESR to be able to provide advice on the completeness of the application?



**Q11: Do you agree with this approach? If not, please state your reasons.**

**C. Exemptions**

If an agency considers it should be exempted according to *Article 6.3* of the Regulation, what information should the agency transmit to prove that the conditions under *Article 6.3 b* are fulfilled?

**6. Notification of the decision on the registration, refusal of registration or the withdrawal of registration of a credit rating agency**

**Q13: Should CESR issue guidance about the transparency of the registration procedure? If yes, please provide your views on the following issues:**

**1) Should the competent authority of the home Member State publish the decision on the registration, refusal of registration requested by existing CRAs or withdrawal of registration? If yes, what information should be published?**

We consider that the decisions should be published. As for the information contained in the publication, we think it should not be that extensive – only the decision and maybe a comment like “the CRA fulfills/does not fulfill all the requirements”. We think that information on the reasons or itemized statements on particular issues may damage the reputation of the management and the CRA as whole. More so in the case of a refusal only/ or predominantly negative comments are pointed.

**VIII. GUIDANCE ON THE INFORMATION SET OUT IN ANNEX II**

**9. Corporate governance (Annex II point 6)**

**C. Audit Committee**

**D. Other Committees (e.g. Remuneration, Strategy Committees)**

**E. Compliance function**

**F. Internal control/audit function**

**G. Risk assessment function**

It is clear from Article 6 point 3 that small CRA may be exempt from the obligation for Compliance function. The explicit existence of the other functions, however, is not clear. In Annex I Section A point 4 it is stated:

**4. A credit rating agency shall have sound administrative and accounting procedures, internal control mechanisms, effective procedures for risk assessment, and effective control and safeguard arrangements for information processing systems.**



It may be concluded that it suffice simply to have procedures, stating the CRA's policy in a particular direction, not necessarily to establish a function and have employees dealing with this.

In the Guidance, however, it is required the CRA to provide information for every function as part of the organisation.

We think it is too burdensome for a small CRA to support such purely administrative staff dealing with oversight issues, which most of the time will not have particular tasks. Also it would not be possible for a small CRA to provide such extensive organisational structure in order to comply with the requirements for registration.

Is it possible for CESR to explicitly state different policy in the case of small CRAs, as it's done for the compliance function, and following a reasonable policy in particular direction to be sufficient for compliance?

### **13. Description of the procedures and methodologies used to issue and review credit ratings (Annex II point 10)**

#### **B. Issuance of credit ratings**

**Copy of the policies, procedures and responsibilities for the issuance of credit ratings. It is expected that these will include:**

- o Determination of which methodology, models and key rating assumptions to use in issuing a rating and description of how this is being applied consistently**

- o Procedures in place that ensure that the methodology is applied and implemented consistently across credit ratings (within each type), offices and regions (where applicable).**

Could you please provide further clarification as to what is expected for a CRA to provide here?

Since a methodology is determined for the assignment of a specific rating, and in most cases for a specific industry (e.g. Rating Methodology for insurance companies, telecoms, etc), it is applied in the analysis of the specific client.

More so in previous relations with the local regulatory body we particularly asked them to define what they need under 'procedure for determination of which methodology to use in issuing a rating and description of how this is being applied consistently'. We didn't receive a satisfactory answer.

Considering we had this problem before, and that having a written procedure is part of the requirements, it would be very useful to provide further guidelines.

The same problem is with the procedure for consistent application of a methodology.

We think that there are other mechanisms, which ensure the determination and consistent application of a methodology – quality of analysts and senior analysts, the existence of a rating committee. Methodologies are also usually organized in a way facilitating the process (each methodology begins with the scope of clients it is used to rate). So what should such a procedure contain?



**o Processes for determining which key elements underlying the credit rating will be included in the press release or reports.**

The press release usually includes a summary exactly of the KEY elements underlying the credit rating. And 'key elements' are by definition a very limited number. Also it is in the CRA's interest to defend its opinion and it is doing this by publishing the key elements. The report includes usually all the factors considered. We do not see what the regulatory body would further conclude from a description of a process, concerning different key elements for different clients.

**o Information on whether the rating process is regularly audited by an independent third party.**

We are not aware of any instances whereby CRA's rating process are reviewed by independent third parties, apart from regulators. Again, to introduce a third party into this process apart from regulators would be only an additional cost. Who would pay for such review? Who, apart from regulators would be competent to perform such a review, especially in a small country, and who would use such a review? The CRA is required to have all kinds of functions, ensuring the quality of the rating process. More so the people familiar with the rating process in a small country is very limited – it confines to CRAs and regulatory bodies.

**14. Description of the procedures and methodologies used to issue and review credit ratings – Disclosure requirements (Annex II point 10)**

**C. Transparency report requirements**

**Copy of the policies and procedures with respect to the production of the transparency report required by Annex I Section E III.**

We think this is not practical, not only for small CRAs, but in general. Considering the structure of a transparency report pointed in 'Annex I Section E Disclosures, III. Transparency report' the transparency report consists of information, which the CRA already has – description of mechanisms and policies, or information, which should be summarized – statistics on the allocation of its staff, financial information. All these do not need stating explicit policies and procedures – the CRA should simply gather the information and present it in the form of a report. We think that the requirement of producing transparency report, plus requirement of the information it should contain and the term for publishing is enough for the CRA to comply with it. What should a procedure contain?

**18. Business Continuity Planning (no direct reference in Annex II)**

**198. The applicant should submit the following information:**



**Copy of the Business Continuity Planning policies and procedures, including, where applicable, information on their applicability to outsourced service providers.**

**Business Continuity Planning tests (where applicable).**

Does 'where applicable' mean the CRA should provide all this information – Business Continuity Planning policies, tests – only if it has them? And what should these policies and procedures include?

Under many sections of the application for a registration a considerable number of policies and procedures are required from a CRA. Most of the policies, however, concern a simple action for which the writing of a whole procedure is required. This is not practical, and also it is not clear how it will be evaluated by the regulatory bodies. Would a simple explanation of how we do it in 2-3 sentences be enough?

**Q39: We would appreciate comments from market participants on the usefulness of adding the additional ECAI information requirements within this consultation paper.**

The presentation of additional ECAI information might lead to duplication of work, if an agency plans to apply for an ECAI status against the ECAI regulator (which can be different from the national regulator who participates in CESR colleges), or unnecessary work if the agency does not envisage application for ECAI status.

**Q40: Do respondents have a view on whether the highlighted bullet points (in *italics and contained within square brackets []*) of historic data and information should be included within this Guidance? If your view is that CESR should ask for historic data and information, what period do you think is appropriate?**

Some of the historic data, included in the highlighted bullet points may not be existent for past periods (e.g. minutes from audit committees, work plan of the internal control/audit function over the past three, copy of the last three reports of the risk assessment function to senior management, etc.) as these functions may not have existed in the organization of smaller CRAs. It is unclear what consequences this issue may have on the registration of an agency.

Best regards,

Radoslav Stoyanov  
Executive Director