



Bundesverband
Öffentlicher Banken
Deutschlands e.V.



Verband deutscher
Pfandbriefbanken e. V

Comments by

**the Association of German Public Sector Banks¹
and
the Association of German Pfandbrief Banks²**

ESMA Consultation Paper

**ESMA's Draft Regulatory Technical Standards on the content and format of ratings data
periodic reporting to be submitted from credit rating agencies**

21 October 2011

¹ The Association of German Public Sector Banks – Bundesverband Öffentlicher Banken Deutschlands, VöB – is a leading industry association in the German banking industry. It represents 62 member institutions including the regional banks (Landesbanken) as well as the development banks owned by the federal and state governments.

² The Association of German Pfandbrief Banks (vdp), headquartered in Berlin, currently represents 39 member banks. The association represents the Pfandbrief-specific interests of its member institutions in dealings with legislators, supervisory authorities, rating agencies and other market participants. It places its specialized services at the disposal of all Pfandbrief-issuing banks in Germany.

General remarks

The banks that are represented by the Association of German Public Sector Banks and the Association of German Pfandbrief Banks welcome stricter regulatory requirements and increased oversight over credit rating agencies in Europe. However, to ensure that the supervisory authorities have the ability to fulfill their mandate, the utmost transparency of the rating process, rating decisions and the communication with market participants and issuers is required. Therefore, we favor a detailed delivery of analytical data concerning specific rating actions.

In the past years, the credit rating process and rating decisions have been widely criticized and have caused many regulators around the world to establish and increase regulation of credit rating agencies. One of the most critical issues has been the timing and the scope of rating changes as well as communicating those changes into the market.

For us, supervising credit rating agencies and their rating decisions more thoroughly requires a detailed and continuous look at ratings and rating changes. Especially in connection with other regulatory requirements such as frequent assessments as well as rigorous, systematic and continuous methodologies, having access to every single rating decision will allow the supervisory agency to make sure credit rating agencies comply with the standards and obligation put forward in EU regulations no. 1060/2009 and no. 513/2011.

Question 19: Do you agree that for the purpose of ongoing supervision ratings on covered bonds (that are not structured finance instruments) should be reported to ESMA as a separate type of ratings different from corporate ratings? What is your view on the specific issues/risks linked to covered bonds ratings? Can the clear identification of covered bond ratings in the periodic reporting help ESMA to deliver a more effective and timely supervision of those risks and issues?

We agree that covered bonds should be reported as a separate type of ratings. Covered bonds are on-balance-sheet bonds, issued by a credit institution. The bonds are backed by high quality assets and the investor has a dual claim against the issuer and the cover pool. Therefore, covered bonds are of much higher quality than corporate bonds and differ fundamentally from structured finance products.

In the past, most rating downgrades for covered bonds were based on a downgrade of the bank's senior unsecured rating or due to a change in the rating methodology and used models, but not due to a deterioration in the credit quality of the underlying assets. Hence, the development of covered bond ratings should be compared with the development of senior unsecured ratings.

In addition, a close look at changes in the methods and models used in covered bond ratings is needed. Rating agencies tend to use structured finance methods without adequate adjustments to structural and qualitative differences between covered bonds and structured finance instruments.

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