

Rating-Agentur Expert RA GmbH

Frankfurt am Main

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To: European Securities and Markets Authority

Electronic submission via <http://www.esma.europa.eu>

Rating-Agentur Expert RA GmbH (“RAEX”) would like to thank the European Securities and Markets Authority (“ESMA”) for the opportunity to comment on the Discussion Paper dealing with the implementation of the CRA 3 Regulation. We hope that you will find our comments useful in your efforts for improving the functioning of financial markers.

Rating-Agentur Expert RA GmbH was established in July 2013 in Germany, Frankfurt am Main. The main objectives of this agency are: assigning credit ratings to companies and banks from CIS countries, and assigning sovereign ratings. With further development of our business activities we consider assigning credit ratings to companies and banks from other countries too. In the nearest future RAEX intends to submit an application for the registration as CRA by ESMA and hopes to meet the highest standards and requirements for CRAs in the European Union.

Yours sincerely,

Svetlana Grishankova

Managing Director

Rating-Agentur Expert RA GmbH

II. DRAFT RTS on INFORMATION ON STRUCTURED FINANCE INSTRUMENTS

Rating-Agentur Expert RA GmbH has no comments on this section as currently structured finance instruments are not included in the scope of our activities and at the moment we have limited understanding of this field.

III. DRAFT RTS on THE EUROPEAN RATING PLATFORM

III.I. Containing complete information on ratings and outlooks and related rating actions

Q21: Particularly for users of ratings: Taking into consideration the rating classification described above, could you suggest (including a detailed reason):

- a. other rating types not captured in the above categorization;

RAEX would like to suggest adding:

- reliability ratings (financial stability) of insurance companies (opinion of the credit rating agency about the likelihood of insurance company to fulfill its current and future obligations to policyholders and beneficiaries);
- reliability ratings of guarantee coverage (opinion of the rating agency about the ability of company/fund to fulfill its obligations made under guarantees and sureties fully and in timely manner).

- b. which rating categories or rating components should ERP cover;

We think that the European Rating Platform should cover the following information:

- credit ratings of companies and banks;
- reliability ratings (financial stability) of insurance companies;
- credit ratings of financial instruments, including structured finance instruments;
- reliability ratings of guarantee coverage;
- credit ratings of regions and municipal governments;
- sovereign ratings.

- c. other actions or events affecting the ratings that should be published on the ERP.

The opinion of RAEX is that the European Rating Platform should publish the reports of credit rating agencies and information which should be disclosed to satisfy the requirements specified in Article 12 of Regulation (EU) No 1060/2009:

“Article 12

Transparency report

A credit rating agency shall publish annually a transparency report which includes information on matters set out in Part III of Section E of Annex I. The credit rating agency shall publish its transparency report at the latest three months after the end of each financial year and shall ensure that it remains available on the website of the agency for at least five years.

Part III of Section E of Annex I

Transparency report

A credit rating agency shall make available annually the following information:

1. detailed information on legal structure and ownership of the credit rating agency, including information on holdings within the meaning of Articles 9 and 10 of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (1);
2. a description of the internal control mechanisms ensuring quality of its credit rating activities;
3. statistics on the allocation of its staff to new credit ratings, credit rating reviews, methodology or model appraisal and senior management;
4. a description of its record-keeping policy;
5. the outcome of the annual internal review of its independent compliance function;
6. a description of its management and rating analyst rotation policy;
7. financial information on the revenue of the credit rating agency divided into fees from credit rating and non-credit-rating activities with a comprehensive description of each; and
8. a governance statement within the meaning of Article 46a(1) of Council Directive 78/660/EEC of 25 July 1978 on the annual accounts of certain types of companies (1). For the purposes of that statement, the information referred to in Article 46a(1)(d) of that Directive shall be provided by the credit rating agency irrespective of whether it is subject to Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids (2). ”

Q22: For displaying the press release information, which of the two options do you prefer and why? Particularly for CRAs: Can you provide evidence on costs that you would incur

under the two proposed options? Could you suggest other ways of retrieving, storing and make available on the ERP the press release information?

We think that ERP should publish the press release documents provided by the CRAs. The documents should be displayed in the same form as they appeared in order to avoid further manipulations and editing of the documents. With publishing the press release documents ESMA will save the documents as provided by CRAs while publishing not the press release documents but only their hyperlinks will allow further manipulations and editing of the documents and introduce technical problems such as hyperlink failure making the press release documents not stable and not reliable. We believe that the costs of both proposed options are negligible.

Q23: Shall the ERP provide supporting rating information in addition to the press releases/report? If so, what kind of information on the rating / rating action would be beneficial?

RAEX believes that the following information would be beneficial:

1. Information about rating classes on all scales of CRAs with explanations and definitions.
2. Rating reports for the assigned ratings (including archive of such report since the moment of ERP inception) for all rating objects and from all registered CRAs.
3. Information about all rating actions for all rating objects and from all registered CRAs.

III.II. Display up-to-date rating information

Q24: Particularly for users of ratings: Which option do you consider as the best option for displaying the data on the new ERP? Please specify the specific time frames (if different from the proposed ones).

RAEX believes that it is reasonable to make update of the rating lists on the ERP on daily basis at some fixed time while the information on new rating actions should be displayed online with the minimum possible technological lag.

Q25: Particularly for users of ratings: As regards options (c) and (d), in case of the ratings reported on a Friday or before a bank holiday, when the rating information has to be made available on the ERP: on the next calendar day or the next working day?

We think that the information should be made available straight after its appearance disregarding weekends and bank holidays. In different jurisdictions the calendars of weekends and bank holidays may differ thus the order of publishing the information should not depend on them. We believe that the rating information should be made available on the ERP on the next calendar day.

Q26: Particularly for CRAs: which of the two possible ways of sending the new rating/outlook information to the ERP is more suitable to be integrated in your IT system: the real-time automatic data-feeds or one daily batch? Please provide a detailed motivation for your choice and include in your answer also reference to the actual costs that you would incur under the different submission options.

Both proposed options are acceptable for RAEX. We are ready to provide information in any chosen way out of these two and the costs of such information provision are negligible. We think it would be reasonable to provide information about rating actions real-time and submit valid rating list in one daily batch.

Q27: Can you suggest any other options for reporting the rating information to ESMA and for the publishing of the received rating information on the ERP?

Transition matrices, structure of ratings (class distribution of ratings, for example in a form of histogram specifying number of companies in each rating class) both for individual CRAs and for all registered CRAs in general, default matrices.

III.III. Allow the possibility to compare all ratings available for a given issuer / instrument

Q28: Particularly for users of ratings: Which information should be added to the rating information to facilitate the comparison across ratings from different CRAs on the same entity while avoiding misunderstanding on the meaning of each rating? Under which form should this information be displayed (full reports, aggregated information, direct links, reference to the CRAs website, etc.)?

RAEX believes that the ERP should provide full reports, aggregated information on ratings assigned, archive of the rating actions and press release documents. All this information should be stored on the ERP. It is not acceptable to provide this information in the form of hyperlinks on CRAs' webpages as in such case continuity of data storage can not be guaranteed and there is a risk of substitution of historical data about ratings.

Q29: Particularly for CRAs: Do CRAs envisage any difficulties on mapping your current internal identifiers with the new LEI for the rated entities?

We do not see any difficulties with such mapping.

Q30: Particularly for CRAs: Are there other common issuer identifiers that the ERP could use in order to allow for a mapping of rated entities?

RAEX would like to suggest using the fiscal IDs assigned in the jurisdiction of rated entities. We do not expect any difficulties with such practice.

III.IV. Provide an easy access to information to all users

Q31: Particularly for users of ratings: Could you provide suggestions on how ERP could present the rating information so as to allow an easy access and understanding of the rating data? If possible please provide a clear description and/or a visual representation like the one given above.

RAEX agrees with the visual representation provided in the Discussion Paper.

Q32: Particularly for users of ratings: Besides the access via a web page, which other means of accessing the ERP do you consider relevant?

RAEX has no comments on this question.

III.V. One data feed: incorporate CEREP/Socrat into the ERP

Q33: Particularly for CRAs: Would you agree with having just one individual data feed to ESMA in order to report to the ERP, CEREP and SOCRAT?

RAEX is currently preparing to submit its application to become CRA registered by ESMA thus at the moment we do not have experience of reporting data to CEREP or SOCRAT and it is difficult for us to comment on this question. However the idea of submitting one data feed instead of two looks rational.

III.VI. Historical data

Q34: Particularly for users of ratings: do you agree with the proposed option? (please state the reasons for your preference).

RAEX agrees with the proposed option.

III.VII. Mapping of credit ratings

Q35: Particularly for rating users: Do you consider it of use that the ERP would provide for a mapping of rating scales to improve the comparability of ratings of different CRAs?

RAEX believes that this can be useful.

Q36: Are there any risks or implications with regard to mappings of rating scales in view of the distinct methodologies employed by CRAs? How should such risks be mitigated?

We believe that there will be no significant problems associated with displaying the rating scales of different CRAs. However mapping and comparison of rating scales should be accompanied by adequate disclosure of information and disclaimer highlighting differences in scales, methodologies, definitions of ratings and concepts of risk in different CRAs. Also it might be useful to make periodic studies on the comparability of rating scales for different CRAs in order to contribute to the stability of financial markets and investor protection.

Q37: What features should a mapping of credit ratings have? Which methodology should be followed?

RAEX has no comments on this question.

IV. DRAFT RTS on FEES CHARGED BY CRAS TO THEIR CLIENTS IV.I. Fees charged by CRAs are required to be non-discriminatory

Q38: Do you consider that identification of “common practices” (within a CRA and across the CRA market) can help to identify discriminatory and non-discriminatory practices?

RAEX agrees that identification of “common practices” will be useful for identification and prevention of discriminatory practices.

Q39: Do you agree on the proposed periodic reporting illustrated above to be submitted by CRAs to ESMA on the application of their pricing policies and calculating their fees? Do you think there are other relevant criteria that should be included to allow ESMA to monitor the non-discrimination requirement?

RAEX agrees with the proposed periodic reporting.

Q40: What is the frequency with which such reporting should be provided to ESMA?

We believe that annual reporting would be reasonable.

Q41: Particularly to CRAs: what are the criteria you are applying or plan to apply to ensure fees are non-discriminatory?

RAEX believes that taking into account the calculation of costs when forming the price list for the rating services can ensure non-discriminatory fees. We are doing all necessary calculations to form such fee structure.

Q42: Do you agree on the approach to assess whether fees are dependent on the level of the credit rating issued by the credit rating agency or on any other result or outcome of the work performed? Do you consider that other approaches or criteria should be applied? What cases do you think should be comprised in the concept “any other result or outcome of the work performed”?

We agree with proposed approach. Fees should depend only on costs and the cost should be linked with the volume of analyzed information and deadlines. Extra charges for urgency can be reasonable since tight deadlines lead to increase cost.

Q43: Do you agree on the approach to assess whether fees are dependent on the provision of ancillary services? Do you consider other approaches or criteria should be applied too? Do you consider that a risk indicator (percentage) between ancillary services fees and the rating

and follow-up fees from a rated issuer or any related party can help to identify possible discriminatory practices? If so, what percentage do you consider appropriate? What would you consider a “significant” percentage?

It is necessary to specify clear and detailed definition for the concept of “ancillary services” in order to identify which kinds of services can be classified as such. With clear definition of “ancillary services” in place it is reasonable to introduce the percentage risk indicator between ancillary services fees and rating fees. Appropriate and “significant” percentages depend on the definition of “ancillary services”.

Q44: Particularly to CRAs: what are the criteria or practices you are applying or plan to apply to ensure fees are not dependent on the level of the rating issued by your agency or on any other result or outcome of the work performed? What are the criteria or practices you are applying or plan to apply to secure fees are not dependent on the provision of ancillary services?

The criteria: transparency of the rating process for ESMA, publication and disclosure of the price lists for assigning and maintaining ratings, disclosure of any additional parameters which have impact on fees charged. In order to verify compliance of CRAs with these criteria we consider it necessary for CRAs to provide ESMA the price list formed taking into account principle that fees should depend on the costs and costs should depend on the amount of analyzed information, deadlines, specific analysis of individual jurisdictions and should not depend on the rating score or amount of non-rating services provided. We also think it is necessary to fix the obligation of CRAs to provide on request from ESMA any contract for rating services in order to check that it satisfies the conditions specified above.

Q45: Particularly to CRAs: do you have cost synergies between rating services and non-rating services other than ancillary services? In that case, please specify what these synergies are and how costs for non-rating and non-ancillary services are allocated to your rating services?

RAEX does not have such cost synergies.

IV.II. Fees charged by CRAs are required to be cost-based

Q46: What are your views towards the approach that different business models and fee structures should be taken into account when assessing whether fees are cost-based?

RAEX has no comments on this question.

Q47: What are your views on the above approach to CRAs’ cost-structure? Do you consider other approach or criteria should be applied? If you agree with the above approach, what cost and non-cost components do you consider should be taken into account and periodically reported to ESMA to identify CRAs’ fee structure?

RAEX agrees with the proposed approach to the CRAs' cost structure.

Q48: Do you agree on identifying average costs per component, average cost per service and average costs per asset class in order to assess whether fees are cost-based?

RAEX has no comments on this question.

Q49: What is the frequency with which such reporting should be provided to ESMA?

We believe that annual reporting would be reasonable.

Q50: Particularly to CRAs: what is your current cost and fee structure? What are the relevant costs when issuing a rating? What are the criteria you are applying or plan to apply to demonstrate that fees are based on costs?

RAEX has no comments on this question.

IV.III. On-going supervision on CRAs' fees by ESMA

Q51: Do you agree CRAs should periodically report to ESMA on the above list of information? Which frequency do you think it is more appropriate? Do you think any other information should be reported to ESMA?

RAEX agrees that it would be useful to report to ESMA on this list of information annually.

Q52: Do you agree that CRAs should report on an "event-based" basis to ESMA when relevant deviations from their pricing policies occur? Do you agree that CRAs should report on an "event-based" basis to ESMA when ancillary services fees exceed a pre- defined percentage with respect to ratings and follow-up fees?

RAEX agrees that the CRA's should report on an "event-based" basis to ESMA in case of deviations in pricing. This would help the regulator to react to those deviations in timely manner. Regarding the percentage deviation of ancillary services fees – clear definition of "ancillary services" is needed.