European Securities and Markets Authority

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PRESS RELEASE

ESMA approves credit ratings from Brazil for use in the EU

The European Securities and Markets Authority (ESMA) has today announced that it considers the regulatory framework for credit rating agencies (CRAs) of Brazil to be in line with European Union rules. This allows European financial institutions to continue using credit ratings issued in Brazil for regulatory purposes after 30 April 2012.

In order to facilitate the exchange of regulatory information, and as a precondition to endorsement, ESMA has also entered into a co-operation agreement for the supervision of CRAs with the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários – CVM).

Majority of CRA non-EU regimes endorsed

Following the endorsement decisions already adopted by ESMA concerning Japan, the USA, Canada, Australia, Hong Kong, Singapore, Mexico, and Argentina, the majority of non-EU issued credit ratings are now recognised by ESMA to be subject to EU-equivalent regulation.

However, there remain some jurisdictions whose legal framework does not currently meet EU requirements. From 30 April it will be only possible to use EU-endorsed ratings for regulatory purposes. ESMA advises European financial institutions to pay particular attention to whether the credit ratings issued outside the EU that they use are EU-endorsed ratings or not.

Notes for editors

1. The EU Regulation (EC) No 1060/2009 on Credit Rating Agencies requires ESMA to assess whether the requirements of third-country CRA regimes are "as stringent as" the European ones. It requires CRAs registered in the EU to identify any ratings that are assigned outside the EU and which are endorsed by CRAs registered in the EU. The list of the CRAs registered in the EU is available at the ESMA website: http://www.esma.europa.eu/page/List-registered-and-certified-CRAs.

2. In addition, the European Commission has already published an equivalence decision on Japan on 28 September 2010, available on: http://ec.europa.eu/internal_market/securities/docs/agencies/japan_en.pdf.

3. EU financial institutions should carefully consider all information made available by CRAs regarding the endorsement status of their credit ratings, which must be disclosed by CRAs on their websites and through their information providers. Financial institutions also need to consider whether their use of a credit rating falls within the scope of "regulatory purposes" laid out by the Capital Requirements Directive (see paragraph 5 of the notes for editors). In addition, as no further extension of the transitional period can be granted, EU financial institutions should take precautionary measures, as from 1 May 2012 credit ratings issued from 16 countries - Chile, China, Costa Rica, Dubai, India, Indonesia, Israel, Panama, Russia, South Africa, Sri Lanka, Taiwan, Thailand, Tunisia, Turkey, and Venezuela – will not be endorsed and therefore will not be permitted to be used for regulatory purposes in the EU.

4. The European Commission's Services have recently clarified that "*credit ratings are not considered to be used for regulatory purposes under the IRB Approach (with the exception of the RBA and IAA for securitisations) and credit ratings issued in non-endorsable countries could continue to be used after 30 April e.g. as benchmarks in IRB models (excluding RBA and IAA for securitisations)*".

5. ESMA is an independent EU Authority that was established on 1 January 2011 according to EU Regulation No. 1095/2010 as published on December 15, 2010, in the Official Journal of the European Union (L 331/84). The Authority contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection. In particular, ESMA fosters supervisory convergence both amongst securities regulators, and across financial sectors by working closely with the other European Supervisory Authorities competent in the field of banking (EBA), and insurance and occupational pensions (EIOPA).

6. ESMA's work on securities legislation contributes to the development of a single rule book in Europe. This serves two purposes; firstly, it ensures the consistent treatment of investors across the Union, enabling an adequate level of protection of investors through effective regulation and supervision. Secondly, it promotes equal conditions of competition for financial service providers, as well as ensuring the effectiveness and cost efficiency of supervision for supervised companies. As part of its role in standard setting and reducing the scope of regulatory arbitrage, ESMA strengthens international supervisory co-operation. Where requested in European law, ESMA undertakes the supervision of certain entities with pan European reach.

7. ESMA also contributes to the financial stability of the European Union, in the short, medium and long-term, through its contribution to the work of the European Systemic Risk Board, which identifies potential risks to the financial system and provides advice to diminish possible threats to the financial stability of the Union. ESMA is also responsible for coordinating actions of securities supervisors or adopting emergency measures when a crisis situation arises.

Further information:

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