

# Competition and choice in the credit rating industry

**Market share calculation required by Article 8d of Regulation 1060/2009 on Credit Rating Agencies as amended**



## Acronyms used

CEREP database	Central Repository of credit rating data reported by CRAs to ESMA as integrated into the European Rating Platform by Commission Delegated Regulation 2015/2 of 30 September 2014 with regard to regulatory technical standards for the presentation of the information that credit rating agencies make available to the European Securities and Markets Authority.
CRA	Credit Rating Agency.
CRA Regulation	Regulation 1060/2009 on credit rating agencies as amended by Regulation 513/2011 of 11 May 2011 and Regulation 462/2013 of 21 May 2013.
ESMA	European Securities and Markets Authority.
Technical Advice	ESMA's Technical Advice on Competition, Choice and Conflicts of Interest in the CRA Industry of 30 September 2015.

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# 1 Executive Summary

## Reasons for publication

One of the objectives of the EU's regulation of credit rating agencies (the CRA Regulation) is to stimulate competition in the credit rating industry by encouraging issuers and related third parties to appoint a variety of credit rating agencies (CRAs) to rate their entities and financial instruments.

Article 8d of the CRA Regulation states that where issuers or related third parties intend to use two or more CRAs, they should consider appointing one CRA with less than a 10% market share. In the event that the issuer or related third party does not appoint one of these CRAs, they must document their decision.

In order to assist with this assessment, Article 8d of the CRA Regulation requires the European Securities and Markets Authority (ESMA) to publish a list of registered CRAs and the types of credit ratings they issue, together with a calculation of CRAs' market shares each year. The market shares are calculated using CRAs' revenues from credit rating activities and ancillary services at group level.

## Contents

Section 2 of this document explains the obligations set out in Article 8d of the CRA Regulation and ESMA's views on the information which might help issuers and related third parties to assess the merits of the CRAs registered in the EU.

Section 3 provides a table setting out the categories of credit ratings offered by EU registered CRAs over time. Section 4 presents the market share calculation required by Article 8d of the CRA Regulation. Section 5 provides information about CRAs' shares of supply of issued credit ratings. This year ESMA has expanded on the information provided in this Section by outlining the share of supply of credit ratings at both an EU level and also within the five largest markets by issuance volume. Section 6 considers and outlines potential next steps.

## Next steps

ESMA encourages issuers and related third parties to consider this information as a part of the due diligence they carry out before appointing CRAs. ESMA would welcome feedback on the information to be presented with this market share calculation in future and invites market participants to send this by email to: [CRA-info@esma.europa.eu](mailto:CRA-info@esma.europa.eu).

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## 2 Introduction

1. Article 8d of Regulation 1060/2009 on credit rating agencies as amended (the CRA Regulation)<sup>1</sup> aims to stimulate competition in the credit rating industry by encouraging issuers and related third parties to appoint smaller credit rating agencies (CRAs).
2. Article 8d states that where issuers or related third parties intend to use two or more CRAs, they should consider appointing one CRA with less than a 10% market share if one of these CRAs is capable of providing a credit rating of their entity or instrument. In the event that the issuer or related third party does not appoint at least one CRA with less than a 10% market share, they must document their decision.
3. Article 8d of the CRA Regulation is supervised and enforced at Member State level by Sectoral Competent Authorities (SCAs). The role of the European Securities and Markets Authority (ESMA) is to promote supervisory convergence by encouraging SCAs to adopt common approaches to the supervision and enforcement of this article.
4. In order to assist issuers and related third parties, Article 8d of the CRA Regulation requires ESMA to publish a list of registered CRAs and the types of credit ratings they issue together with a calculation of CRAs' market shares. The article specifies that the calculation should be made using annual revenues from credit rating activities and ancillary services at group level.
5. On 30 September 2015, ESMA provided Technical Advice to the European Commission on Competition, Choice and Conflicts of Interest in the Credit Rating Industry (Technical Advice on Competition).<sup>2</sup> In this advice, ESMA stated that the market share calculation carried out for the purposes of Article 8d should be used with caution as ESMA found that there are separate markets for credit ratings of different categories issued in different national markets within the EU, as well as international markets used by global issuers and investors.
6. This means that different CRAs can have expertise in some types of credit ratings and/or in some national markets without having a significant presence in the EU overall.<sup>3</sup> For this reason, ESMA has included additional information since its 2014 market share calculations<sup>4</sup> and encourages issuers and related third parties to consider this more granular information before appointing CRAs.<sup>5</sup>

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<sup>1</sup> OJ L 302 of 17.11.2009, page 1 as amended by Regulation 513/2011 of 11 May 2011, OJ L 145 of 31.5.2011, page 30 and Regulation 462/2013 of 21 May 2013, OJ L 146 of 31.5.2013, page 1.

<sup>2</sup> ESMA 2015/1472 Technical Advice on Competition, Choice and Conflicts of Interest in the Credit Rating Industry, 30 September 2015, available at: [http://www.esma.europa.eu/system/files/esma-2015-1472\\_technical\\_advice\\_on\\_competition\\_choice\\_and\\_conflicts\\_of\\_int....pdf](http://www.esma.europa.eu/system/files/esma-2015-1472_technical_advice_on_competition_choice_and_conflicts_of_int....pdf)

<sup>3</sup> *Ibid* at page 85.

<sup>4</sup> when compared to the information published in 2014 in ESMA/2014/1583, Credit Rating Agencies' 2014 Market Share Calculations for the purposes of Article 8d, 22 December 2014, available at: [http://www.esma.europa.eu/system/files/2014-1583\\_credit\\_rating\\_agencies\\_market\\_share\\_calculation\\_2014.pdf](http://www.esma.europa.eu/system/files/2014-1583_credit_rating_agencies_market_share_calculation_2014.pdf)

<sup>5</sup> See footnote 2 above at pages 41-53.

### 3 Registered credit rating agencies' EU market shares

7. Table 1 below provides the market share calculation required by Article 8d of the CRA Regulation. The calculation has been made using the revenues from credit ratings and ancillary services reported to ESMA by CRAs in their 2015 accounts.<sup>6</sup>

**Table 1: Market share calculation based on 2015 applicable turnover from credit rating activities and ancillary services in the EU**

Registered Credit Rating Agency	Market share
AM Best Europe-Rating Services Ltd. (AMBERS)	0.93%
ARC Ratings, S.A.	0.03%
ASSEKURATA Assekuranz Rating-Agentur GmbH	0.21%
Axesor S.A.	0.05%
BCRA-Credit Rating Agency AD	0.02%
Capital Intelligence (Cyprus) Ltd	0.14%
CERVED Group S.p.A.	0.88%
Creditreform Rating AG	0.50%
CRIF S.p.A.	0.05%
Dagong Europe Credit Rating Srl	0.04%
DBRS Ratings Limited	1.89%
The Economist Intelligence Unit Ltd	0.80%
Euler Hermes Rating GmbH	0.21%
European Rating Agency, a.s.	0.00%
EuroRating Sp. Zo.o.	0.01%
Feri EuroRating Services AG	0.40%
Fitch Group <sup>7</sup>	16.56%
GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH	0.34%
ICAP Group SA	0.12%
INC Rating Sp. Zo.o. <sup>8</sup>	0.00%
ModeFinance S.A. <sup>9</sup>	0.05%
Moody's Group <sup>10</sup>	31.29%
Rating-Agentur Expert RA GmbH <sup>11</sup>	0.00%
Scope Ratings AG	0.39%
Spread Research SAS	0.09%
Standard & Poor's Group <sup>12</sup>	45.00%
<b>TOTAL</b>	<b>100.00%</b>

Source: ESMA

<sup>6</sup> In accordance with Section 5.14 of ESMA/2015/609 Guidelines on periodic information to be submitted to ESMA by Credit Rating Agencies, 23 June 2015, available at: <https://www.esma.europa.eu/sites/default/files/library/2015/11/2015-609.pdf>

<sup>7</sup> Fitch France S.A.S.; Fitch Deutschland GmbH; Fitch Italia S.p.A.; Fitch Polska S.A.; Fitch Ratings España S.A.U.; Fitch Ratings Limited and Fitch Ratings CIS Limited.

<sup>8</sup> Registered with effect from 27 October 2015.

<sup>9</sup> Registered with effect from 10 July 2015.

<sup>10</sup> Moody's Investors Service Cyprus Ltd; Moody's France S.A.S.; Moody's Deutschland GmbH; Moody's Italia S.r.l.; Moody's Investors Service España S.A.; Moody's Investors Service Ltd; and Moody's Investors Services EMEA Ltd.

<sup>11</sup> Registered with effect from 1 December 2015.

<sup>12</sup> Standard & Poor's Credit Market Services France S.A.S.; Standard & Poor's Credit Market Services Italy S.r.l.; and Standard & Poor's Credit Market Services Europe Limited.

## 4 Categories of credit ratings offered by registered credit rating agencies

8. Table 2 below shows the evolution of categories of credit ratings offered by each CRA registered in the EU from 2011 to 2015. This information has been drawn from ESMA's central repository of credit rating information (the CEREP database)<sup>13</sup> as well as from information provided by CRAs during the registration process and notifications from CRAs. Further information about the categories of credit ratings offered by registered CRAs can be found on their websites.

**Table 2: Categories of credit ratings offered by EU registered credit rating agencies in 2011 and in 2015**

	2011										2015									
CRA	FI	IN	CO	SV	SS	PE	SN	SF	CB	FI	IN	CO	SV	SS	PE	SN	SF	CB		
AM Best Europe-Rating Services Ltd. (AMBERS)		IN	CO								IN	CO								
ARC Ratings, S.A.			CO									CO	SV				SF			
ASSEKURATA Assekuranz Rating-Agentur GmbH		IN									IN									
Axesor SA												CO					SF			
BCRA-Credit Rating Agency AD	FI	IN	CO		SS					FI	IN	CO	SV	SS						
Capital Intelligence (Cyprus) Ltd	FI		CO	SV						FI		CO	SV							
CERVED Group S.p.A.			CO									CO								
Creditreform Rating AG			CO					CB				CO					SF	CB		
CRIF S.p.A.			CO									CO								
Dagong Europe Credit Rating Srl (Dagong Europe)										FI	IN	CO								
DBRS Ratings Limited	FI	IN	CO	SV	SS	PE		SF	CB	FI	IN	CO	SV	SS	PE	SN	SF	CB		
The Economist Intelligence Unit Ltd													SV							
Euler Hermes Rating GmbH	FI		CO							FI		CO					SF			
European Rating Agency, a.s.					SS										SS					
EuroRating Sp. z o.o.										FI		CO								
Feri EuroRating Services AG				SV						FI		CO	SV				SF			
Fitch Group	FI	IN	CO	SV	SS	PE	SN	SF	CB	FI	IN	CO	SV	SS	PE	SN	SF	CB		
GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH	FI		CO							FI		CO								
ICAP Group SA			CO									CO								
INC Rating Sp. z o.o.															SS					
modeFinance S.r.l.												CO								
Moody's Group	FI	IN	CO	SV	SS	PE	SN	SF	CB	FI	IN	CO	SV	SS	PE	SN	SF	CB		
Rating-Agentur Expert RA GmbH										FI	IN	CO	SV	SS	PE					
Scope Ratings AG			CO							FI		CO					SF			
Spread Research SAS												CO								
Standard & Poor's Group	FI	IN	CO	SV	SS	PE	SN	SF	CB	FI	IN	CO	SV	SS	PE	SN	SF	CB		

**Legend:**

FI	Corporate - Financial	PE	Public entities
IN	Corporate - Insurance	SN	Supranational
CO	Corporate - Non Financial	SF	Structured Finance
SV	Sovereign	CB	Covered Bonds
SS	Sub-sovereign		Non registered

<sup>13</sup> As integrated into the European Rating Platform by Commission Delegated Regulation 2015/2 of 30 September 2014 with regard to regulatory technical standards for the presentation of the information that credit rating agencies make available to the European Securities and Markets Authority, OJ L 2 of 6.1.2015 at page 24.

Source: ESMA

## 5 EU wide share of supply of credit ratings by category of asset class

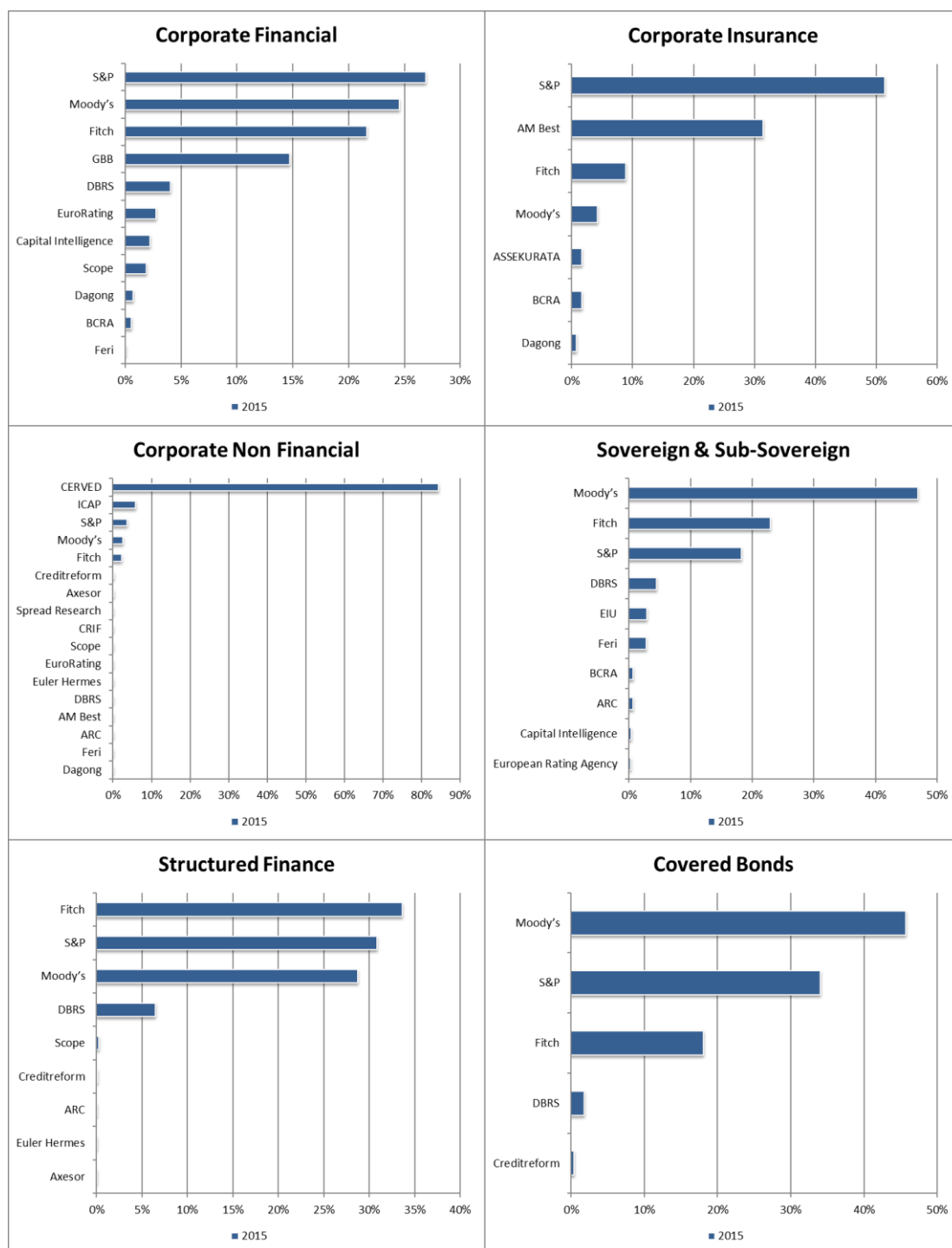
9. ESMA noted in its Technical Advice on Competition that share of supply data may better help users of credit ratings to understand the relative market positions of CRAs in different markets within the CRA industry given the lack of clarity surrounding the definitions of credit rating activities and ancillary services in the CRA Regulation.<sup>14</sup>
10. For this reason, ESMA has set out CRAs' 2015 EU wide share of supply of credit ratings by category of asset class in Figure 1 below. These figures have been created using the data reported to the CEREP database by CRAs. ESMA highlights that the share of supply data is presented at **issue level** for structured finance instruments and covered bonds but at **issuer level** for the corporate financial, non-financial and insurance rating categories.

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<sup>14</sup> See Pages 85-86 of ESMA 2015/1472 Technical Advice on Competition, Choice and Conflicts of Interest in the Credit Rating Industry: [http://www.esma.europa.eu/system/files/esma-2015-1472\\_technical\\_advice\\_on\\_competition\\_choice\\_and\\_conflicts\\_of\\_int....pdf](http://www.esma.europa.eu/system/files/esma-2015-1472_technical_advice_on_competition_choice_and_conflicts_of_int....pdf)



**Figure 1: EU wide share of supply of credit ratings by category of asset class<sup>15</sup>**

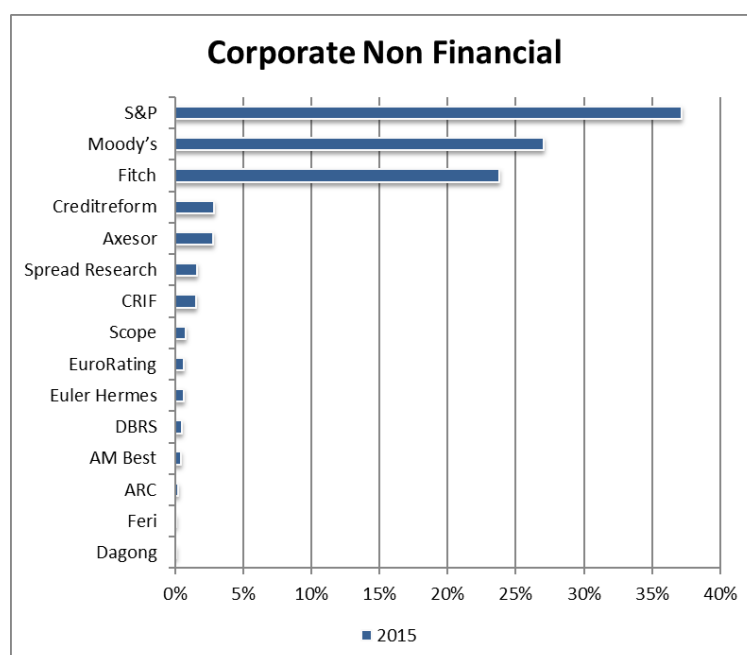


Source: ESMA, CEREP

<sup>15</sup> Share of supply data is presented at issue level for structured finance instruments and covered bonds but at issuer level for the corporate financial, non-financial and insurance rating categories.

11. As credit ratings in the corporate non-financial category set out in Figure 1 are reported to the CEREP database at issuer rather than issuance level the proportion of outstanding credit ratings appears much higher for those CRAs whose customer base consists mainly of smaller corporations, such as CERVED and ICAP. To address this issue, the following figure provides the share of supply of corporate non-financial credit ratings issued by all CRAs registered in the EU, excluding these CRAs.

**Figure 2: Share of supply of corporate non-financial ratings issued by all CRAs excluding CERVED and ICAP**

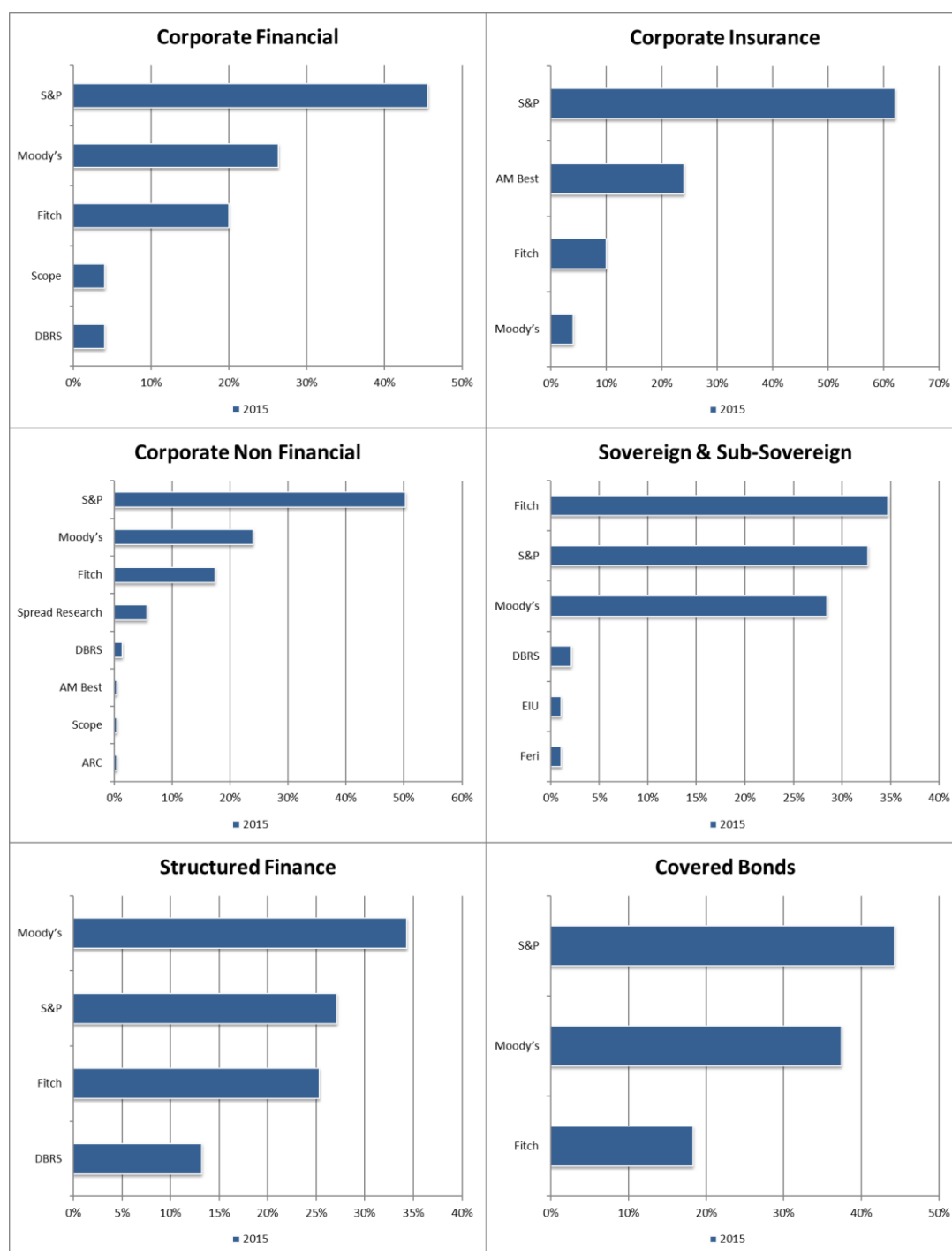


Source: ESMA, CEREP

12. Figures 3-7 below set out CRAs' 2015 share of supply by category of credit rating included in the CEREP database in the five largest national markets by issuance volume, presented alphabetically by country name. This is the first time ESMA has included country by country data in the market share calculation. It was decided to focus on these specific countries on account of their individual and collective importance to the total market for credit ratings within the EU<sup>16</sup>.
13. With this more granular data ESMA hopes to provide greater visibility on market for credit ratings to NCAs and issuers in order to better facilitate their implementation of and compliance with the requirements of Article 8d of the CRA regulation. Subject to the feedback received on the usefulness of this data, ESMA intends to expand the list of countries presented in the Market share calculation report in future years.

<sup>16</sup> Based on the data reported to ESMA's CEREP database these five markets account for 80.8% of ratings by issuance volume within the EU.

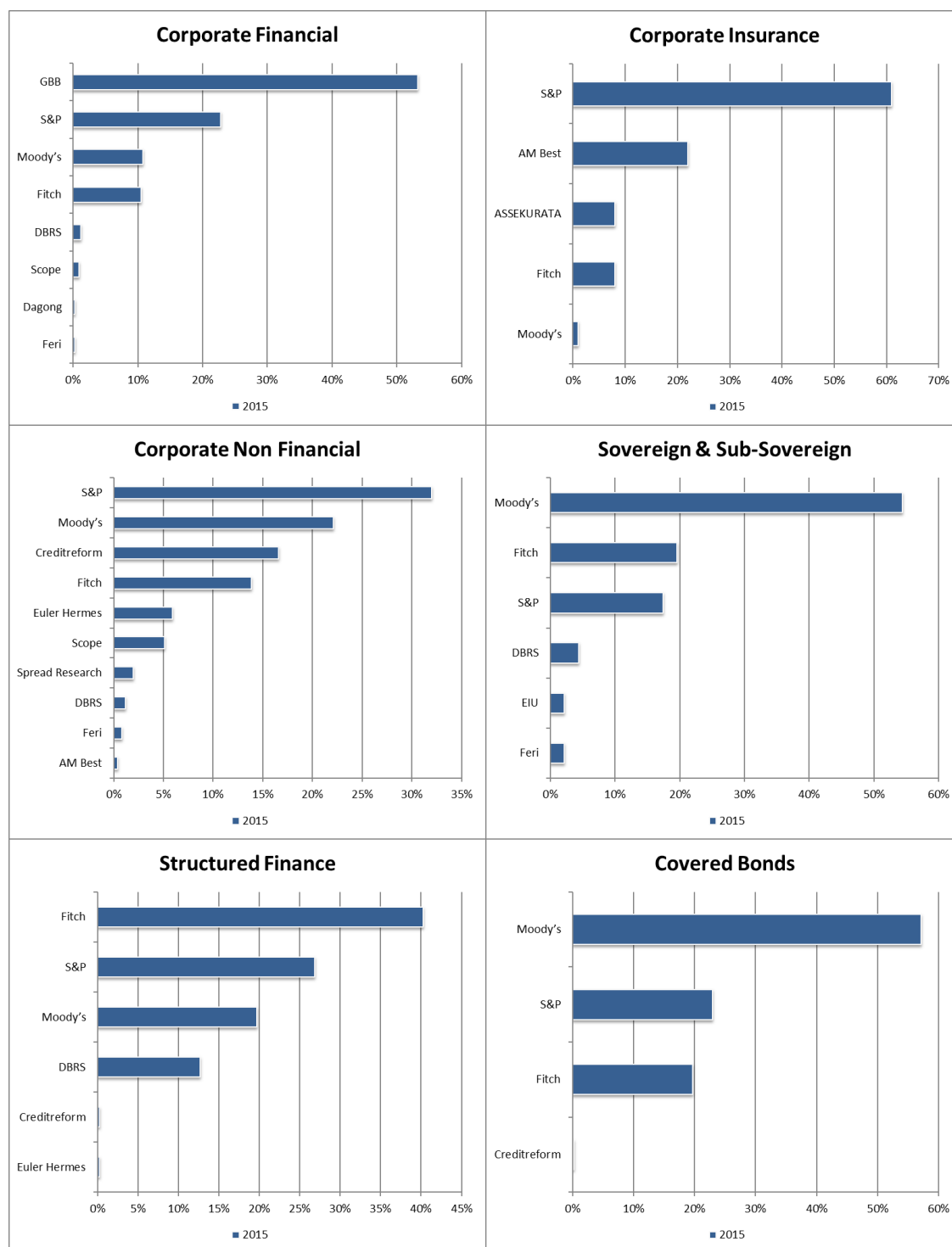
**Figure 3: France share of supply of credit ratings by category of asset class <sup>17</sup>**



Source: ESMA, CEREP

<sup>17</sup> Share of supply data is presented at issue level for structured finance instruments and covered bonds but at issuer level for the corporate financial, non-financial and insurance rating categories.

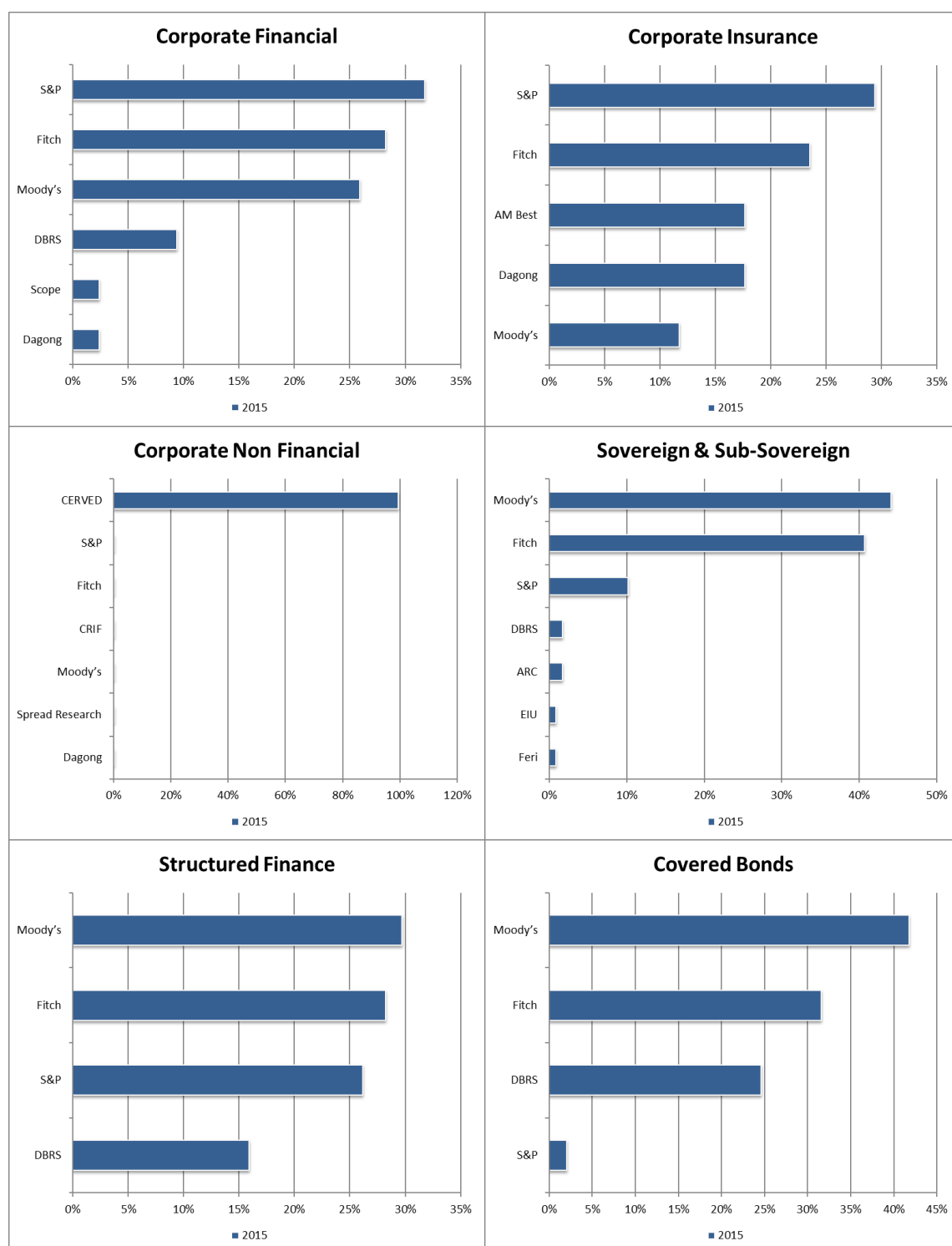
**Figure 4: Germany share of supply of credit ratings by category of asset class.<sup>18</sup>**



Source: ESMA, CEREP

<sup>18</sup> Share of supply data is presented at issue level for structured finance instruments and covered bonds but at issuer level for the corporate financial, non-financial and insurance rating categories.

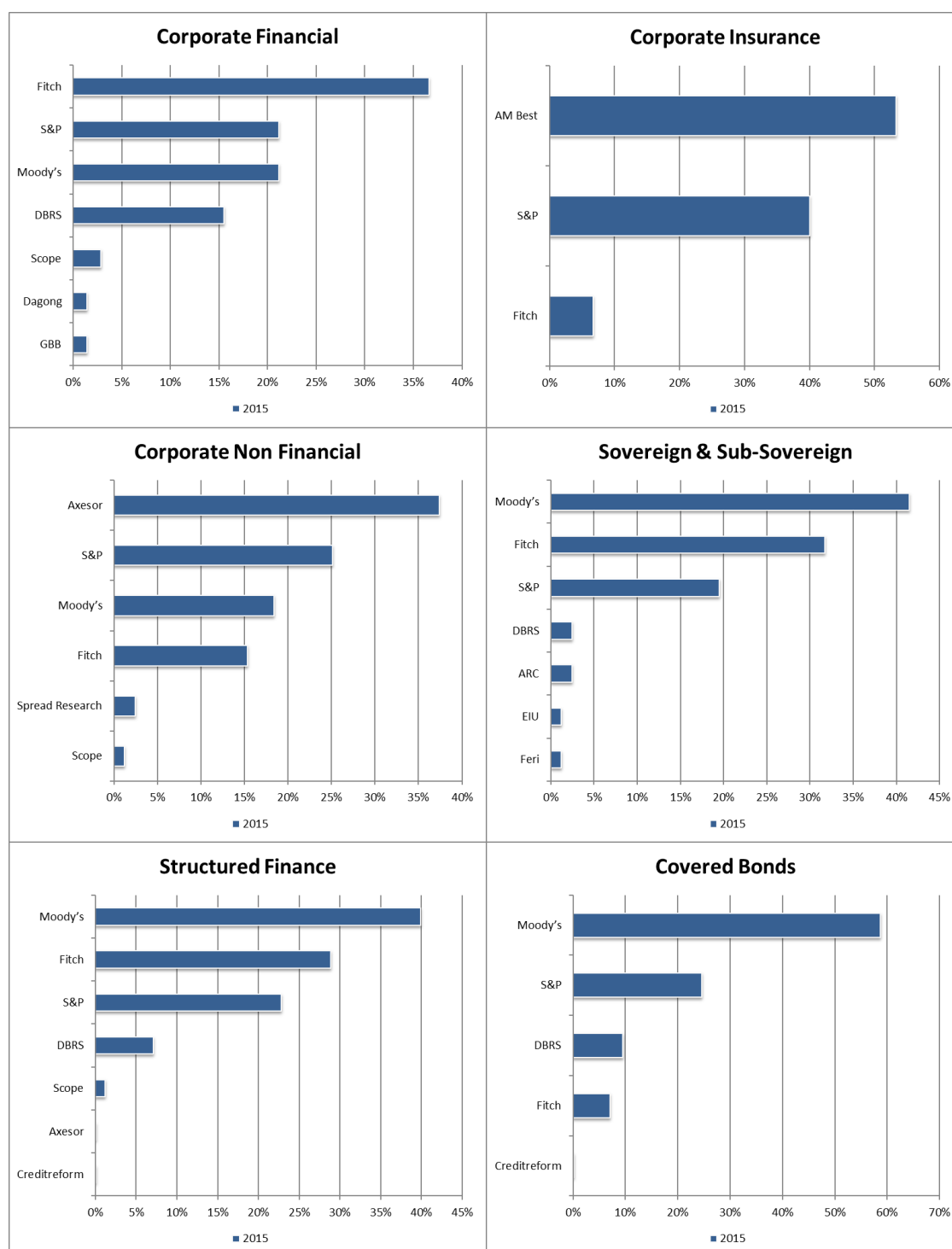
**Figure 5: Italy share of supply of credit ratings by category of asset class.<sup>19</sup>**



Source: ESMA, CEREP

<sup>19</sup> Share of supply data is presented at issue level for structured finance instruments and covered bonds but at issuer level for the corporate financial, non-financial and insurance rating categories. It should be noted, that due to the fact that credit ratings in the corporate non-financial category set out in Figure 5 are reported to the CEREP database at issuer rather than issuance level the proportion of outstanding credit ratings appears much higher for CERVED whose customer base consists mainly of smaller corporations

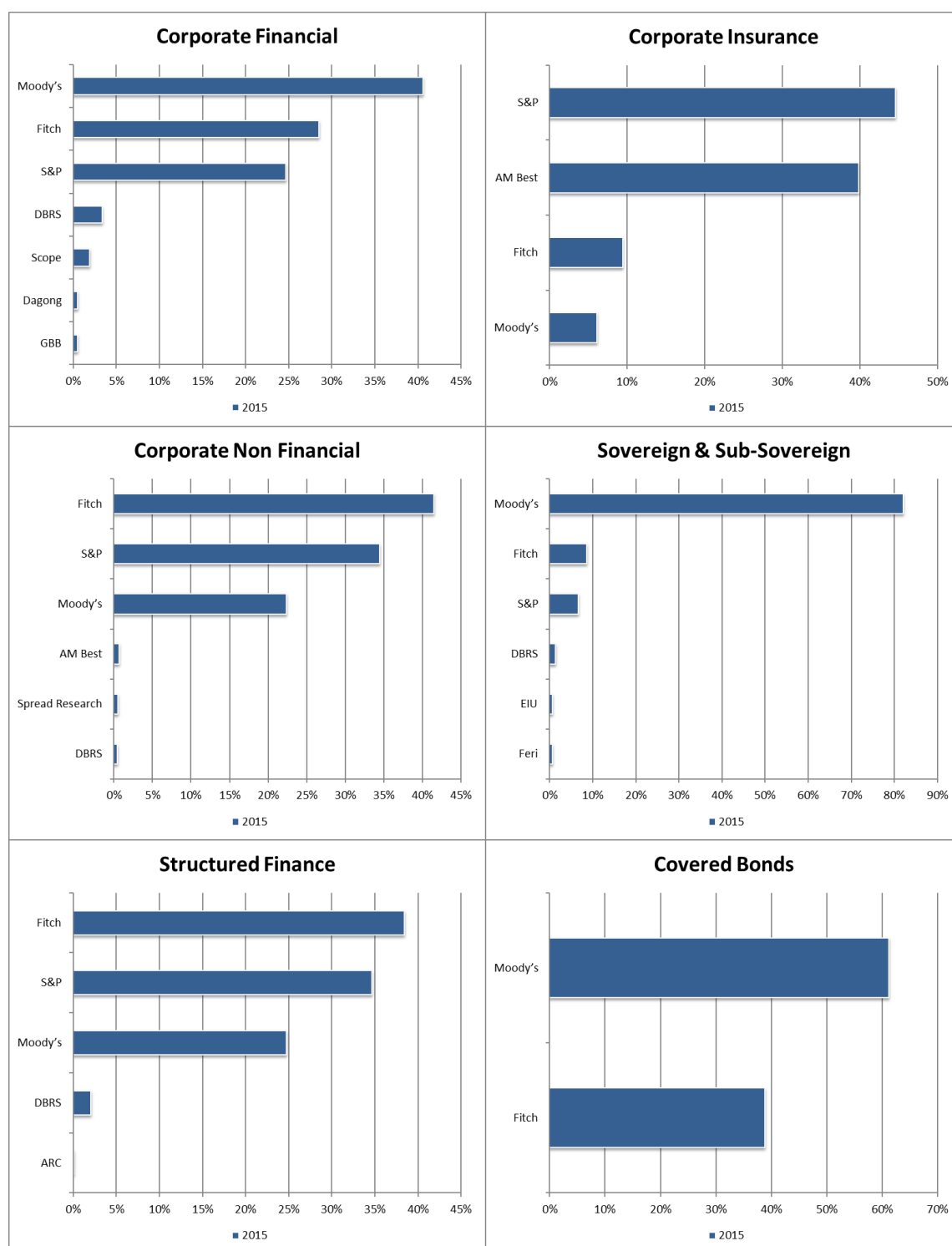
**Figure 6: Spain share of supply of credit ratings by category of asset class.<sup>20</sup>**



Source: ESMA, CEREP

<sup>20</sup> Share of supply data is presented at issue level for structured finance instruments and covered bonds but at issuer level for the corporate financial, non-financial and insurance rating categories.

**Figure 7: UK share of supply of credit ratings by category of asset class.<sup>21</sup>**



Source: ESMA, CEREP

<sup>21</sup> Share of supply data is presented at issue level for structured finance instruments and covered bonds but at issuer level for the corporate financial, non-financial and insurance rating categories.

## 6 Next steps

14. ESMA intends to use data from the European Rating Platform to present CRAs' shares of supply of credit ratings with next year's market share calculation in order to improve the comparability of data across different categories.
15. ESMA encourages issuers and related third parties to consider the information provided in this market share calculation as a part of the due diligence they carry out before appointing CRAs. ESMA would welcome feedback on the information to be presented with this market share calculation in future and invites market participants to send this by email to: [CRA-info@esma.europa.eu](mailto:CRA-info@esma.europa.eu).