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11 May 2016

NON-RESTRICTED

Opinion of the European Supervisory Authorities

on the Commission's intention to amend the draft implementing technical standards on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013, and under Article 109a(1) of Directive 2009/138/EC

Introduction and legal basis

On November 5th 2015, the European Banking Authority ('EBA'), the European Securities and Markets Authority ('ESMA'), and the European Insurance and Occupational Pensions Authority ('EIOPA'), jointly referred to as the European Supervisory Authorities ('ESAs'), through the Joint Committee, submitted to the European Commission ('Commission') for endorsement the draft implementing technical standards ('ITS') under Article 136(1) and (3) of Regulation (EU) No 575/2013[1] ('Capital Requirements Regulation – CRR'), and under Article 109a(1) of Directive 2009/138/EC[2] ('Solvency II Directive'). Those draft ITS were also published on the ESAs' websites on 11 November 2015.

The draft ITS under the CRR specify for all External Credit Assessment Institutions ('ECAIs') the correspondence ('mapping') between the risk weights and credit assessments (via credit quality steps) as well as the factors and benchmarks that should be taken into account to determine such correspondence. These draft ITS were accompanied by 26 ECAIs' mapping reports, containing the explanation of how the ITS principles have been applied in each ECAI case to produce the mapping.

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1.).

[2] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p.1.).

In order to achieve the consistency required under Article 111(1)(n) of Directive 2009/138/EC, the mapping of ECAIs' credit assessments in the draft ITS under the Solvency II Directive is based on the mapping methodology proposed for the banking framework with the necessary adaptations, where appropriate, in order to take into account the extra credit quality step ('CQS') specified under the insurance framework.

With its letter dated March 29th 2016, the Commission, acting in accordance with the procedure set out in the fourth and fifth sub-paragraphs of Article 15(1) of Regulation (EU) No 1093/2010[3], in the fourth and fifth sub-paragraphs of Article 15(1) of Regulation (EU) No 1095/2010[4], and in the fourth and fifth sub-paragraphs of Article 15(1) of Regulation (EU) No 1094/2010[5], informed the ESAs that it intends to amend the draft ITS.

The competence of the ESAs to deliver an opinion is based, respectively for each of the ESAs, on Article 34(1) of Regulation (EU) No 1093/2010, Article 34(1) of Regulation (EU) No 1095/2010, and Article 34(1) of Regulation (EU) No 1094/2010, as the mapping of ECAIs' credit assessments is a topic which relates to the areas of competence of all three ESAs through the Joint Committee.

In accordance with Article 14(5) of the Rules of Procedure of the EBA Board of Supervisors, Article 4(3) of the Rules of Procedure of the ESMA Board of Supervisors, and Article 2(8) of the Rules of Procedure of the EIOPA Board of Supervisors , the ESAs have adopted this opinion.

General comments

Article 15(1) of Regulation (EU) No 1093/2010, Article 15(1) of Regulation (EU) No 1095/2010, and Article 15(1) of Regulation (EU) No 1094/2010 require the Commission to decide whether to endorse ITS within three months of receipt of draft technical standards (which may be extended by one month). Recital 23 of Regulation (EU) No 1093/2010, recital 23 of Regulation (EU) No 1095/2010 and recital 22 of Regulation (EU) No 1094/2010 explain that these time limits are necessary to 'ensure a smooth and expeditious adoption process'[6].

These recitals clarify that draft technical standards 'should be subject to amendment only in very restricted and extraordinary circumstances, since the Authority is the actor in close contact with and knowing best the daily functioning of the financial markets'. It also explains the legislators' intention that draft technical standards would be subject to amendment 'if they were incompatible with Union law, did not respect the principle of proportionality or ran counter to the fundamental principles of the internal market for financial services as reflected in the acquis of

[3] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority) amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC.

[4] Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC.

[5] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC.

[6] The ESAs note that the Commission has exceeded this deadline.

Union financial services legislation'[7]. In addition, legislators have allocated responsibility to the ESAs to take technical regulatory decisions on the basis of their expertise in order to achieve the broader objective of protecting the public interest. For future reference, the ESAs would welcome if the Commission clearly indicates its reasons for amendments to draft Technical Standards as set out in the above-mentioned recitals. In addition to this, specific comments on particular amendments proposed by the Commission are set out below.

Specific comments / proposals

1. The issue relates to the mapping of credit assessments of ECAIs with small pools of credit ratings, which is often the case for small and newly established ECAIs. With regard to those, the Commission proposes the removal of the non-relaxed quantitative requirements to be applied from 1 January 2019, thus extending indefinitely the validity of the mapping based on relaxed quantitative requirements proposed in the draft ITS for the phase-in period of 3 years only. In addition the amendments proposed by the Commission loosen the *quantitative* monitoring requirements to be applied to small and newly established ECAIs, by introducing for those ECAIs the non-time limited application of relaxed quantitative requirements for the purposes of the calculation and monitoring of their mapping.

2. Recital 98 of the CRR calls for *'the recognition of more credit rating agencies as ECAIs as a way to open the market to other undertakings',* however, it does so with the explicit added specification that this should be carried out *'without making the process easier or less demanding',* thereby calling for taking into account the competition objective while carrying out a purely prudential mandate, rather than clearly prioritising competition over prudential considerations altogether. The solution included in the draft ITS submitted to the Commission reflects Recital 98 of the CRR by balancing these two objectives: recognising that the limited track history of credit ratings could pose difficulties, from a *competition* viewpoint, and in order to allow for the development of historical data, required from a *prudential* viewpoint, proposed a phase-in period of three years until 31 December 2018.

3. During the phase-in period relaxed quantitative requirements would be applied for the purposes of the mapping exercise to those ECAIs with limited data, thus to promote competition in the credit rating industry and to provide transparent and predictable means by which smaller and newly established ECAIs could build their reputation among issuers and investors in the EU. Thereafter, in order to ensure that the mapping also reflects prudential requirements, more conservative mappings would apply as they would be based on non-relaxed quantitative requirements. Thus, both objectives are reflected in the draft ITS submitted to the Commission, as indeed required by recital 98 of the CRR.

4. If the mapping applicable from 1 January 2019 onwards were to be deleted, in line with the Commission's proposed amendments, no prudential considerations would be reflected in the

[7] It should be noted that the General Court has upheld this approach in stating in its order of 27 November 2013 in Case T-23/12, MAF v. EIOPA, that the content of draft technical standards *'n'est, en principe, pas susceptible de modification'*.

mapping. This would result in market competition objectives overruling prudential objectives, without any conservative adjustments being applied to small and newly established ECAIs, even in the absence of quantitative evidence proving the creditworthiness of their rating categories. De facto, ECAIs with limited data availability would be put in a better position than those with a full set of data, which would contradict the requirement to avoid 'making the process easier or less demanding' when providing for the recognition of more credit rating agencies as ECAIs, as set out in recital 98 of the CRR. In addition, it can be questioned whether this serves competition objectives, as ECAIs with limited data availability can compete against lower regulatory standards which creates an unlevel playing field.

5. The primary objective of the mapping under both the CRR and Solvency II Directive is prudential, rather than to stimulate competition in the credit rating industry. Given the complicated market dynamics already present in such industry[8], it is not clear that the Commission's proposed amendments would have the effect of stimulating competition between credit rating agencies. However, those proposed amendments may certainly create risks to financial stability, for the reasons set out below. The ESAs consider that there are a number of alternative means to stimulate competition between credit rating agencies without creating risks to financial stability, such as preventing the use of restrictive credit rating mandates, or limiting the use of exclusive agreements between issuers and credit rating agencies.

6. In the mapping methodology proposed by the ESAs any "conservative adjustment" is applied through quantitative requirements on the number of rated and defaulted items of the ECAI, to ensure that the rating categories of the ECAI's relevant rating scales (through their default rates) are indeed representative of the level of risk of the credit quality steps to which they are mapped[9]. This is designed to guarantee that the calculation of the capital requirement for credit risk under the Standardised Approach, as designed in the Basel framework and implemented through the CRR, as well as the calculation of Solvency Capital Requirement under the Solvency II framework, is applied in a consistent manner and does not underestimate risks yielding insufficient capital charges. In particular, the calibration of the Standardised Approach to credit risk in relation to the riskiness associated to the credit ratings provided by ECAIs relies on the so-called 'benchmark default rates' associated to the various credit quality steps. Each CQS is representative of a benchmark default rate and rating categories of ECAIs mapped to such CQS should be representative as well of such

[8] As discussed on pages 91-93 of ESMA's Technical Advice on Competition, Choice and Conflicts of Interest in the CRA Industry and available at https://www.esma.europa.eu/sites/default/files/library/esma-2015-1472_technical_advice_on_competition_choice_and_conflicts_of_int.pdf

[9] The ESAs however note that the mapping methodology applied when calculating the mapping for a rating category in case limited data are available, and applied for most small and newly established ECAIs' rating categories, is not per se conservative, as it allows, in particular, to pool rated items over time to increase the possibility of raising the number of observations with the view of achieving sufficient quantitative evidence for proving the creditworthiness of that rating category. On the contrary this possibility to sum up rated items along time cohorts to increase the number of observations does not occur when the mapping methodology for large pools of data is applied. Therefore it is considered that the proposed mapping methodology already takes into account potential competition considerations and represents an important step towards facilitating the recognition of better mappings for small and newly established ECAIs.

creditworthiness. To calculate the default rate of a rating category[10] and perform the mapping, the quantitative evidence from the ECAI plays a major role, and in case not sufficient quantitative information is available to allow for a reliable calculation of the default rate (i.e. the ECAI does not have a sufficiently numerous track record of credit ratings), then a conservative adjustment should apply in order to avoid underestimating the final capital requirement.

7. It should further be noted that Article 136 of the CRR requires that quantitative factors have to be used in combination with qualitative factors for the purposes of the mapping. If the Commission's amendments were applied, it would mean that there would be few, if any[11], quantitative requirement reflected in the mapping calculated for small and newly established ECAIs for an unlimited period, despite the obligation to also consider quantitative factors, both when performing the mapping and when carrying out its monitoring.

8. The proposed approach of the ESAs for the calculation of the mapping following the phase-in period ensures the stability of rating assignments through minimum sample requirements, so that during downturn conditions very few additional defaults would not lead to a revision of the mapping and a substantial increase of capital requirements of institutions. Hence this approach would also guarantee the stability of capital requirements. Particularly extending indefinitely an approach with few if any quantitative requirements, as it occurs during the phase-in period, would lead to instability of the mappings in case a monitoring of the ratings is performed, as the occurrence of any small number of defaults is very likely to lead to a worsening of the mapping given that not enough rated items will be available to compensate the increase in the default rate. The Commission's amendments which propose the non-time limited application of such relaxed quantitative requirements for the calculation of the mapping for small and newly established ECAIs, would lead to the inherent instability of the mappings, which would in turn undermine the stability of capital requirements.

9. Therefore the proposed amendments ultimately jeopardise the prudential purposes of the mapping and be prone to underestimation of capital requirements for institutions. In addition it may turn out that defaults on ECAI's credit ratings and poor rating experience is detected by the regulatory community too late (as any default evidence can only be assessed ex-post) thus triggering a material risk for financial stability.

10. The proposed approach of the ESAs for the calculation of the mapping with the enforcement of non-relaxed quantitative requirements at the end of the phase-in period, ensures proper incentives for ECAIs, leading them to adequately collect and monitor their rating data and not add incentives to assign credit ratings which are not based on sound analyses, even during the

[10] Although the concept of default rate should be specified further (e.g. the draft ITS differentiates between short run default rate and long run default rate of a rating category), loosely speaking the default rate of a rating category can be thought as the ratio between the number of defaulted items and rated items in that rating category.

[11] The ESAs note that during the phase-in period when calculating the mapping for a rating category having limited data, in case no defaults are experienced in that rating category then zero rated items are requested to map that rating category to its candidate credit quality step when considering the quantitative factors. Therefore in such cases no quantitative requirement at all would be applied to those rating categories.

phase-in period. Obviously, there is always the possibility of the ESAs proposing revised versions of the ITS as per the second subparagraph of Article 136(1) CRR *'where necessary'*. Nevertheless, with an non-time limited application of relaxed quantitative requirements, and no explicit horizon of those relaxed quantitative requirements reaching their end, there would be nothing to prevent ECAIs from assigning insufficiently prudent ratings, and there would be nothing to urge them to appropriately monitor their performance, since there would be no concern of any conservative adjustment to be applied at a later stage. In addition ECAIs would be incentivised to provide the minimum data required, and of the lowest quality, to the ESAs for the purposes of the mapping exercise, since the provision of data would for them represent only a risk for a possible assignment of a worse mapping. Therefore less than optimal mappings would be assigned without any limitation.

11. The proposed approach of the ESAs for the calculation of the mapping following the phase-in period provides a minimum level playing field with respect to the level of conservatism applied under the Standardised Approach (SA) and Internal Ratings Based (IRB) Approach to credit risk. Under the IRB institutions are required to add to their estimates a margin of conservatism when a methodology or data are considered to be less satisfactory (see Article 179 of the CRR). Accordingly, when no sufficient data is available for the purposes of the mapping, the level of conservatism should increase. In addition the lack of track history of credit ratings by an ECAI is also linked to limited experience in the application of the rating methodology by that ECAI, and lack of (or at least limited) back-testing results, which should in turn require an additional layer of prudence. The ITS as amended by the Commission do not reflect either of those principles, thus not ensuring a level-playing field between the SA and IRB approaches while removing any prudential consideration underlying the mapping and exacerbating the risk to financial stability.

For these reasons, the ESAs reject the amendments to both the ITS on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of the CRR and Article 109a(1) of the Solvency II Directive.

The original version of the draft ITS as submitted to the Commission is re-attached in the Annex to this Opinion, as a reflection of the above views rejecting the amendments proposed by the Commission.

This opinion will be published on the ESAs' websites.

Done at Frankfurt, 11 May 2016

Gabriel Bernardino	Andrea Enria	Steven Maijoor
Chair, EIOPA	Chair, EBA	Chair, ESMA
Chair, Joint Committee		

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

Annex

EUROPEAN COMMISSION

Brussels, XXX
[…](2013) XXX draft

COMMISSION IMPLEMENTING REGULATION (EU) No …/..

of XXX

laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council

(Text with EEA relevance)

EIOPA EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY | EBA EUROPEAN BANKING AUTHORITY | esma European Securities and Markets Authority | JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

COMMISSION IMPLEMENTING REGULATION (EU) No …/..

of XXX

laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms [1], and in particular the third subparagraph of Article 136(1) and the third subparagraph of Article 136(3) thereof,

Whereas:

(1) The provisions in this Regulation are closely linked, since they deal with the mapping of credit risk assessments with the exception of those assigned to securitisation positions. To ensure coherence between those provisions, which should enter into force at the same time, and to facilitate a comprehensive view and compact access to them by those subject to those obligations, it is desirable to include all the implementing technical standards required by Regulation (EU) No 575/2013 in relation to the mapping of credit risk assessments with the exception of those assigned to securitisation positions in a single Regulation.

(2) Article 136(1) of Regulation (EU) No 575/2013 requires the specification, for all ECAIs, of the correspondence of the relevant credit assessments issued by an ECAI to the credit quality steps set out in Section 2 of that Regulation ('mapping'). External credit assessment institutions ('ECAIs') are credit rating agencies that are registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council[2] or a central bank issuing credit ratings which are exempt from the application of that Regulation.

(3) Certain similar terms and concepts used in Regulation (EC) No 1060/2009 and in Regulation (EU) No 575/2013 can be the subject of confusion. 'Credit assessment' is a term used under Regulation (EU) No 575/2013 to refer both to the 'labels' of the different categories of ratings by ECAIs, and to the assignment of one such rating to a particular item. However, points (h) and (a) of Article 3(1) of

1 OJ L 176, 27.6.2013, p. 1.

2 Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1).

Regulation (EC) No 1060/2009 clearly distinguish between these two concepts with the use of the terms 'rating category' and 'credit rating', respectively. To avoid confusion, given the need to refer to these two particular concepts separately, and given the complementarity of the two Regulations, the terminology of Regulation (EC) No 1060/2009 should be used as more specific.

(4) Given that Article 4(1) of Regulation (EC) No 1060/2009 permits the use of credit ratings for regulatory purposes by credit institutions and investment firms only if issued by credit rating agencies established in the Union and registered or certified in accordance with that Regulation, the mapping of ECAIs credit assessments should cover credit assessments that comply with the definition of 'credit rating' according to point (a) of Article 3(1) of that Regulation. Further, given that by virtue of Article 135 of Regulation (EU) No 575/2013, a mapping is required for all ECAIs, the definition of which includes, by virtue of Article 4(98) of that Regulation also credit ratings produced by central banks exempted from the application of Regulation (EC) No 1060/2009, the mapping of ECAIs rating categories should also cover such credit ratings as well. Regulation (EU) No 575/2013 prevents the use of credit ratings for certain asset classes (such as equity) within the Standardised Approach. Therefore, with regards to assessments for fixed-income collective investment undertakings (CIUs), only those that solely depend on the credit quality of the underlying assets should be covered by the mapping of ECAIs' credit assessments.

(5) The mapping has the objective of assigning the appropriate risk weights of Regulation (EU) No 575/2013 to the rating categories of an ECAI. Therefore, it should be able to identify not only relative differences of risk but also the absolute levels of the risk of each rating category, ensuring appropriate levels of capital under the Standardised Approach.

(6) Given the wide range of methodologies across ECAIs, objectivity and consistency of the mapping methodology are key aspects for ensuring a level playing field for institutions as well as fairness of treatment for ECAIs. For this reason, when elaborating rules on the use of quantitative and qualitative factors and their comparison with the benchmark, it is necessary to build upon the previous regulatory framework, namely Part 3 of the 'Revised Guidelines on the recognition of External Credit Assessment Institutions' dated 30 November 2010, with a view to ensuring a smooth transition to the mapping set out in this Regulation. This would also ensure consistency with international standards in this area, reflected, in turn, in Annex 2 of the 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006.

(7) The default definitions used by ECAIs may differ from the one set forth in Article 178 of Regulation (EU) No 575/2013, as reflected in Regulation (EC) No 1060/2009 and Commission Delegated Regulation (EU) 2015/2[3]. Nevertheless, in order to ensure that the overall level of the capital required to externally rated

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[3] Commission Delegated Regulation (EU) 2015/2 of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council 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, 6.1.2015, p. 24).

exposures is not changed, the types of default events used for the calibration of the benchmark referred to in point (c) of Article 136(2) of Regulation (EU) No 575/2013 should be used as the default definition for the purposes of this Regulation.

(8) The mapping should be understood as the correspondence of the rating categories of an ECAI with a regulatory scale which has been defined for prudential purposes. Therefore it should be considered as a distinct concept from the one the European Securities and Markets Authority is required to provide in the form of a report, by virtue of Article 21(4b) of Regulation (EC) No 1060/2009 aiming at allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity. Also for the purposes of this Regulation "mapping" does not refer to mappings which are developed under other frameworks, such as the Eurosystem Credit Assessment Framework, as these may operate on different methodologies and definitions.

(9) A different mapping should be conducted for each relevant set of rating categories ('rating scale'). When the rating scale of an ECAI is the same across exposure classes, the mapping should not differ in order to guarantee the differentiation of risk weights across exposure classes established by Regulation (EU) No 575/2013. When an ECAI has several rating scales, the relationship established by the ECAI among them should be considered for the mapping.

(10) Unsolicited ratings, as referred to in point (x) of Article 3 of Regulation (EC) No 1060/2009, should be included in the mapping of an ECAI as long as these ratings can be used for regulatory purposes in accordance with Article 4(1) of Regulation 1060/2009 and the EBA has confirmed that they do not differ in quality from solicited credit ratings of this ECAI in accordance with paragraph 1 of Article 138 of Regulation (EU) No 575/2013.

(11) Both quantitative and qualitative factors should be used to produce a mapping, with the qualitative factors being considered in a second stage, as and when necessary and especially where quantitative factors are not adequate. As a result qualitative factors should assist in reviewing, correcting and enhancing any initial mapping done based on quantitative factors, where such review is justified and necessary. This two-step approach is required in order to contribute to the objectivity of the mapping and to ensure that the mapping actually represents the correspondence of the rating categories of an ECAI with a regulatory scale which has been defined for prudential purposes. In this regard, whenever the quantitative information supported by the available data becomes less satisfactory or is not available, the level of prudence applied to the development of that mapping should increase to compensate for the lack of empirical evidence.

(12) It is necessary to avoid causing undue material disadvantage on those ECAIs which, due to their more recent entrance in the market, present limited quantitative information, with the view to balancing prudential with market concerns. Therefore, where there is limited quantitative information, two mappings should apply: the first mapping should apply for a limited period of three years; thereafter another mapping should become applicable. Both mappings should take into account quantitative and qualitative factors. Compared to the second mapping, the quantitative factors for deriving the first mapping should be

relaxed. Updates to the mapping should be made whenever this becomes necessary, including in relation to the mapping to be applied after the three years, to reflect quantitative information collected during the three year-period. Nevertheless, in the absence of such a review, an automatic return to the most prudent approach following a three-year period is desirable given the role of mapping in the overall prudential regulatory framework and in order to ensure a level-playing field.

(13) The default rate associated with items assigned the same rating category should be considered as the most representative quantitative factor, and should be calculated from default data corresponding to such items. Where sufficient default data corresponding to these items is not available, an estimate of the default rate should still be calculated on the basis of the opinion of the relevant ECAI and any default evidence associated with the items assigned the same rating category for which the mapping is being performed.

(14) The calculation of the default rate should meet certain requirements in order to ensure that it is comparable across ECAIs. For example, it should be measured over a three-year time horizon in order to allow the observation of a significant number of defaults when risk is very low and it should account for withdrawals to avoid an underestimation of risk. In addition, it should include neither public sector ratings nor issue ratings, given the scarcity of defaults for the former type of ratings, and to avoid biasing the default rates towards issuers with higher number of issues by using the latter ratings.

(15) Default rates should be calculated for each rating category to the extent possible over a long term and a short term observation period. The former should provide the basis for the mapping, whereas the latter should provide an early warning about a potential increase, or decrease, in the level of risk of the rating category. Where a sufficient number of credit ratings is not available, only the long run default rate should be calculated due to the high degree of uncertainty regarding the calculation of short run default rates. In this case, a warning about a potential increase in the level of risk of the rating category should be provided by the qualitative factors.

(16) The definition of default established by the ECAI to calculate the default rate associated with items assigned the same rating category is a key element of the mapping. A stricter definition of default may produce higher default rates compared to other less strict default definitions. Therefore the impact of the definition of default on the calculation of the default rate should be estimated in order to ensure an accurate mapping.

(17) When only scarce default data is available, the time horizon considered in a rating category should be taken into account for the purpose of the mapping to ensure consistency across ECAIs. Thus, where a short term horizon has been chosen, some items may qualify for a particular level of risk. However, these same items may represent a significantly different level of risk if evaluated over the three-year time horizon chosen for the calculation of the default rate. This factor should be recognised and appropriately reflected in the mapping.

(18) The meaning of the rating category and its relative position within the rating scale should be especially helpful when there is no quantitative factor available and the

mapping of adjacent rating category is known. For that purpose, credit quality steps should be characterised in terms of aspects such as the capacity of the issuer to meet its financial obligations, its sensitivity to the economic situation or its proximity to the default status.

(19) General risk drivers of the items assigned a rating category should also be taken into account. The size and the degree of activity diversification of the items assigned a rating category should be considered as relevant indicators of their underlying risk profile. It should also be possible to consider as qualitative factors other measures of creditworthiness assigned to items of the same rating category, in order to convey additional information with respect to the default behaviour of the relevant rating category. The relevance, objectivity and reliability of the different measures of creditworthiness should be carefully analysed before their application for the purpose of the mapping exercise.

(20) With a view to ensuring consistency with international standards, the benchmarks of the long-run and short run default rates provided in the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006, should be used for the purpose of the mapping exercise. However, more detailed rules should be provided to account for the variety of ECAIs that currently operate in the EU market and whose default rates may significantly deviate from the pattern of the international ECAIs underlying the current benchmark. More concretely, the long-run benchmark should be defined in terms of intervals to acknowledge that a range of values can be compatible with each credit quality step.

(21) Rating categories should be initially mapped to a credit quality step based on the comparison of their long-run default rate with the long-run benchmark and the information provided by the qualitative factors.

(22) Pursuant to Article 136(1) second subparagraph of Regulation (EU) No 575/2013 the adequacy of the mapping should be reviewed frequently because the long-run default rate could change and become representative of a different credit quality step. To that end, recent short run default rates experienced within a rating category should be regularly confronted with their relevant short run benchmarks ('monitoring' and 'trigger' levels). A breach of the short run benchmarks for a consecutive period of two years could signal a weakening of assessment standards which could imply that the new underlying long-run default rate is representative of a less favourable credit quality step. This signal would be more relevant where the trigger level is breached instead of the monitoring level. With respect to small and newly established ECAIs where a sufficient number of credit ratings, as those referred to in Article 6 of this Regulation, is not available, close monitoring of performance, among others focused on the number of defaulted and non-defaulted items, should be under particular consideration. In particular, any single defaulted item associated with the highest rating categories should trigger consideration of the review of the mapping assigned to the single ECAI that rated that item.

(23) Revised draft implementing technical standards should be submitted where new ECAIs are established.

(24) Given that compliance with Regulation (EU) No 575/2013 is required at all times, it is necessary to monitor the performance of the mappings on a continuous basis.

(25) This Regulation is based on the draft implementing technical standards submitted by EBA, ESMA and EIOPA jointly to the Commission.

(26) EBA, ESMA and EIOPA have conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[4]; the opinion of the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council[5]; and the opinion of the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council[6],

HAS ADOPTED THIS REGULATION:

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4 Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p.12).

5 Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

6 Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

TITLE I
Quantitative factors, qualitative factors and benchmark

CHAPTER 1

QUANTITATIVE FACTORS

Article 1
Quantitative factors of the mapping of a rating category

The quantitative factors referred to in point (a) of Article 136(2) of Regulation (EU) No 575/2013 shall be the short run and long run default rates associated with items assigned the same rating category, as set out in Articles 2 to 6.

Article 2
Items used for the calculation of the quantitative factors

The calculation of the default rates referred to in Article 1 for each rating category shall be performed based solely on items assigned the same rating category by the external credit assessment institution (ECAI) for which the mapping is being performed, where the items meet all of the following requirements:

(a) they belong to the 'corporate ratings' referred to in point (a) of Article 3 of Commission Delegated Regulation (EU) 2015/2, and they are assigned on an issuer basis;

(b) they are assigned either of the following:

(i) a solicited credit rating;

(ii) an unsolicited credit rating that meets the requirements of Article 138 of Regulation (EU) No 575/2013.

SECTION 1
CALCULATION OF THE QUANTITATIVE FACTORS OF A RATING CATEGORY WHERE A SUFFICIENT NUMBER OF CREDIT RATINGS IS AVAILABLE

Article 3
Determination of whether a sufficient number of credit ratings is available

1. For the purpose of the short run default rate calculation, the number of items assigned the same rating category by the ECAI for which the mapping is being performed shall be deemed sufficiently numerous, where the items meet all of the following requirements:

(a) they are sufficient with respect to the perceived risk profile of the rating category, considering as an indicator, the number of items representing the inverse of the long run default rate benchmark of the rating category, as referred to in point (a) of Article 14;

(b) they are representative of the most recent pool of items assigned the same rating category.

2. For the purpose of the long run default rate calculation, the number of items assigned the same rating category by the ECAI for which the mapping is being performed shall be deemed sufficiently numerous where at minimum the most recent 10 short run default rates as referred to in paragraph 1 are available.

Article 4
Short run default rates of a rating category where a sufficient number of credit ratings is available

1. Where a sufficient number of credit ratings is available according to Article 3(1), the short run default rates referred to in Article 1 shall be calculated in the manner described in paragraphs 2 to 5.

2. The short run default rates of a rating category shall be calculated over a 3-year time horizon as a ratio where:

(a) the denominator represents the number of items assigned the same rating category present at the beginning of the time horizon;

(b) the numerator represents the number of items referred to in point (a) that have defaulted prior to the end of the time horizon.

3. Items withdrawn prior to the end of the time horizon and not defaulted shall only contribute to the denominator of the short run default rates referred to in point (a) of paragraph 2 with a weight equal to 50%. Any item for which there is evidence that it has been withdrawn prior to the occurrence of a default shall be considered to be a defaulted item.

4. Items shall be considered to be defaulted items to be included in the numerator specified in point (b) of paragraph 2 where any of the following types of event has occurred:

(a) a bankruptcy filing or legal receivership that will likely cause a miss or delay in future contractually required debt service payments;

(b) a missed or delayed disbursement of a contractually required interest or principal payment, unless payments are made within a contractually allowed grace period;

(c) a distressed exchange if the offer implies the investor will receive less value than the promise of the original securities;

(d) the rated entity is under a significant form of regulatory supervision owing to its financial condition.

5. The short run default rates shall be calculated for each available pool of items assigned the same rating category on semi-annual periods, which are based on 1 January and 1 July of each year.

Article 5

Long run default rate of a rating category where a sufficient number of credit ratings is available

1. Where a sufficient number of credit ratings is available in accordance with Article 3, the long run default rate referred to in Article 1 shall be calculated according to paragraphs 2 to 4.

2. The long run default rate shall be calculated as the weighted average of at least the most recent 20 short run default rates calculated according to Article 4(1). If the available short run default rates span a longer period and they are relevant, the short run default rates for that longer period shall be used. Where less than 20 short run default rates calculated according to Article 4(1) are available the remaining short run default rates shall be estimated to span the 20 short run default rates.

3. For the purpose of producing the weighted average referred to in paragraph 2, the short run default rates calculated according to Article 4 shall include the most recent recessionary period. This recessionary period shall span a semester or more of the negative growth rates of the Gross Domestic Products in the main geographical areas of reference of the rated items.

4. For the purpose of producing the weighted average referred to in paragraph 2, the following shall apply:

   (a) the short run default rates calculated according to Article 4(1) shall be weighted based on the number of items specified in point (a) of Article 4(2);

   (b) the estimated short run default rates shall be weighted based on estimates of the number of items assigned the same rating category present at the beginning of the time horizon.

   The weights shall ensure an adequate representation of recessionary and non-recessionary years in a full economic cycle.

SECTION 2

CALCULATION OF THE QUANTITATIVE FACTORS OF A RATING CATEGORY WHERE A SUFFICIENT NUMBER OF CREDIT RATINGS IS NOT AVAILABLE

Article 6

Items used and long run default rate of a rating category where a sufficient number of credit ratings is not available

Where a sufficient number of credit ratings as referred to in Article 3 is not available, the calculation of the long run default rate specified in Article 1 shall be performed according to both the following:

(a) it shall be based on the estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category, pursuant to point (a) of Article 136(2) of Regulation (EU) No 575/2013;

(b) the estimate referred to in point (a) shall be complemented with the number of defaulted and non-defaulted items assigned the rating category by the ECAI for which the mapping is being performed.

CHAPTER 2

QUALITATIVE FACTORS

Article 7

Qualitative factors of the mapping of a rating category

The qualitative factors referred to in point (b) of Article 136(2) of Regulation (EU) 575/2013 shall be:

(a) the definition of default considered by the ECAI, as referred to in Article 8;

(b) the time horizon of a rating category considered by the ECAI, as referred to in Article 9;

(c) the meaning of a rating category and its relative position within the rating scale established by the ECAI, as referred to in Article 10;

(d) the creditworthiness of the items assigned the same rating category, as referred to in Article 11;

(e) the estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category, pursuant to point (a) of Article 136(2) of Regulation (EU) No 575/2013, as set out in Article 12;

(f) the relationship established by the ECAI ('internal mapping'), where available, between, on the one hand, the rating category which is being mapped, and¸ on the other hand, other rating categories produced by the same ECAI, where a mapping for the latter categories has already been set out according to this Regulation, as referred to in Article 13;

(g) any other relevant information that can describe the degree of risk expressed by a rating category.

Article 8
Definition of default used by the ECAI

The type of events considered by the ECAI for the purposes of establishing whether an item is in default situation shall be compared to those specified in Article 4(4) by using all available information. Where the comparison indicates that not all such types of default events have been considered by the ECAI, the quantitative factors referred to in Article 1 shall be adjusted accordingly.

Article 9
Time horizon of a rating category

The time horizon considered by the ECAI for assigning a rating category shall provide a relevant indication of whether the level of risk of that rating category is sustainable over the time horizon specified in Article 4(2).

Article 10
Meaning and relative position of a rating category

1. The meaning of a rating category established by the ECAI shall be set according to the characteristics of the capacity of financial commitments as reflected in the items assigned such rating category being honoured, and more in particular by its degree of sensitivity to the economic environment and its degree of proximity to the default situation.
2. The meaning of a rating category shall be compared to the one established for each credit quality step, as set out in Article 15.
3. The meaning of a rating category shall be considered in combination with its relative position within the rating scale established by the ECAI.

Article 11
Creditworthiness of items assigned the same rating category

1. The creditworthiness of items assigned the same rating category shall be determined by considering at least their size and the degree of sector and geographical diversification of their business activity.
2. Different measures of creditworthiness assigned to items of the same rating category may be used, to the extent appropriate, to complement the information provided by the quantitative factors referred to in Article 1 where they are reliable and relevant for the mapping.

Article 12
Estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category

The estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category shall be taken into account for the purpose of the mapping as long as it has been adequately justified.

Article 13
Internal mapping of a rating category established by the ECAI

The corresponding credit quality step of other rating categories produced by the same ECAI for which an internal mapping exists according to point (f) of Article 7 shall be used as a relevant indication of the level of risk of the rating category which is being mapped.

CHAPTER 3

BENCHMARK AND RELATED REFERENCES

Article 14
Benchmark

The benchmark referred to in point (c) of Article 136(2) of Regulation (EU) No 575/2013, shall be distinguished in:

(a) a long-run default rate benchmark for each credit quality step as set out in Table 1 of Annex I;

(b) a short-run default rate benchmark for each credit quality step as set out in Table 2 of Annex I.

Article 15
Reference meaning of the rating category per credit quality step

The reference meaning of a rating category that corresponds to each credit quality step is set out in Annex II.

TITLE II

Mapping tables

Article 16
Mapping tables

The correspondence of the rating categories of each ECAI with the credit quality steps set out in Section 2 of Chapter 2 of Title II of Part Three of Regulation (EU) No 575/2013 is that set out in Annex III.

TITLE III

Final provision

Article 17
Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

On behalf of the President
[Position]

ANNEX I

Benchmarks for the purposes of Article 14

Table 1

Long-run benchmark
(3-year time horizon)

Credit Quality Step	Long run benchmark		
	Mid value	Lower bound	Upper bound
1	0.10%	0.00%	0.16%
2	0.25%	0.17%	0.54%
3	1.00%	0.55%	2.39%
4	7.50%	2.40%	10.99%
5	20.00%	11.00%	26.49%
6	34.00%	26.50%	100.00%

Table 2

Short run benchmarks
(3-year time horizon)

Credit Quality Step	Short run benchmarks	
	Monitoring level	Trigger level
1	0.80%	1.20%
2	1.00%	1.30%
3	2.40%	3.00%
4	11.00%	12.40%
5	28.60%	35.00%
6	not applicable	not applicable

ANNEX II

Reference meaning of the rating category per credit quality step for the purposes of Article 15

Credit Quality Step	Meaning of the rating category
1	The rated entity has extremely/very strong capacity to meet its financial commitments and is subject to minimal/very low credit risk.
2	The rated entity has strong capacity to meet its financial commitments and is subject to low credit risk but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than rated entities in CQS 1.
3	The rated entity has adequate capacity to meet its financial commitments and is subject to moderate credit risk. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the rated entity to meet its financial commitments.
4	The rated entity has the capacity to meet its financial commitments but is subject to substantial credit risk. It faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the rated entity's inadequate capacity to meet its financial commitments.
5	The rated entity has the capacity to meet its financial commitments but is subject to high credit risk. Adverse business, financial, or economic conditions will likely impair the rated entity's capacity or willingness to meet its financial commitments.
6	The rated entity is currently vulnerable or highly vulnerable and is subject to very high credit risk, including in or very near to default. It is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.

ANNEX III

Mapping tables for the purposes of Article 16

Credit quality step	**1**	**2**	**3**	**4**	**5**	**6**
AM Best Europe-Rating Services Ltd.						
Long-term issuer credit ratings scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, rs
Long-term debt ratings scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d
Financial strength ratings scale	A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term ratings scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4		
ARC Ratings S.A. *From entry into force to 31.12.2018*						
Medium and long-term issuers rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Medium and long-term issues rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuers rating scale	A-1+	A-1	A-2, A-3	B, C, D		

Short-term issues rating scale	A-1+	A-1	A-2, A-3	B, C, D		
ARC Ratings S.A. *From 01.01.2019 onwards*						
Medium and long-term issuers rating scale		AAA, AA, A		BBB	BB	B, CCC, CC, C, D
Medium and long-term issues rating scale		AAA, AA, A		BBB	BB	B, CCC, CC, C, D
Short-term issuers rating scale		A-1+, A-1		A-2, A-3, B, C, D		
Short-term issues rating scale		A-1+, A-1		A-2, A-3, B, C, D		
ASSEKURATA Assekuranz Rating-Agentur GmbH *From entry into force to 31.12.2018*						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC/C, D
Short-term corporate rating scale	A++	A		B, C, D		
ASSEKURATA Assekuranz Rating-Agentur GmbH *From 01.01.2019 onwards*						
Long-term credit rating scale		AAA, AA, A	BBB		BB	B, CCC, CC/C, D
Short-term corporate rating scale		A++, A		B, C, D		

Axesor SA *From entry into force to 31.12.2018*						
Global rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D, E
Axesor SA *From 01.01.2019 onwards*						
Global rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D, E
BCRA – Credit Rating Agency AD *From entry into force to 31.12.2018*						
Bank long-term ratings scale	AAA, AA	A	BBB	BB	B	C, D
Insurance long-term ratings scale	iAAA, iAA	iA	iBBB	iBB	iB	iC, iD
Corporate long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Municipality long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Issue long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Bank short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Corporate short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Municipality short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		

Issue short-term rating scale	A-1+	A-1	A-2, A-3	B, C, D		
BCRA – Credit Rating Agency AD *From 01.01.2019 onwards*						
Bank long-term ratings scale		AAA, AA, A	BBB	BB		B, C, D
Insurance long-term ratings scale		iAAA, iAA, iA	iBBB		iBB	iB, iC, iD
Corporate long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Municipality long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Issue long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Bank short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Corporate short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Municipality short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Issue short-term rating scale		A-1+, A-1	A-2, A-3	B, C, D		

Banque de France *From entry into force to 31.12.2018*						
Global long-term issuer credit ratings scale	3++	3+, 3	4+	4, 5+	5, 6	7, 8, 9, P
Banque de France *From 01.01.2019 onwards*						
Global long-term issuer credit ratings scale	3++	3+	3, 4+	4, 5+	5, 6	7, 8, 9, P
Capital Intelligence Ltd *From entry into force to 31.12.2018*						
International long-term issuer rating scale	AAA, AA	A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
International short-term issuer rating scale	A-1+	A-1	A-2, A-3	B, C, D		
International short-term issue rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Capital Intelligence Ltd *From 01.01.2019 onwards*						
International long-term issuer rating scale		AAA, AA, A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D
International short-term issuer rating scale		A-1+, A-1	A-2, A-3	B, C, D		

International short-term issue rating scale		A-1+, A-1	A-2, A-3	B, C, D		
Cerved Rating Agency S.p.A. *From entry into force to 31.12.2018*						
Corporate long-term rating scale	A1.1, A1.2, A1.3	A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
Cerved Rating Agency S.p.A. *From 01.01.2019 onwards*						
Corporate long-term rating scale		A1.1, A1.2, A1.3, A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
Creditreform Ratings AG *From entry into force to 31.12.2018*						
Long-term rating scale	AAA, AA	A	BBB	BB	B	C, D
Creditreform Ratings AG *From 01.01.2019 onwards*						
Long-term rating scale		AAA, AA, A	BBB	BB	B	C, D

CRIF S.p.A. *From entry into force to 31.12.2018*						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, D1, D2
CRIF S.p.A. *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, D1, D2
Dagong Europe Credit Rating *From entry into force to 31.12.2018*						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	A-1		A-2, A-3	B, C, D		
Dagong Europe Credit Rating *From 01.01.2019 onwards*						
Long-term credit rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale		A-1	A-2, A-3	B, C, D		
DBRS Ratings Limited						
Long-term obligations rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale	R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		

Claims paying ability rating scale	IC-1	IC-2	IC-3	IC-4	IC-5	D
European Rating Agency, a.s. *From entry into force to 31.12.2018*						
Long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D
Short-term rating scale		S1	S2	S3, S4, NS		
European Rating Agency, a.s. *From 01.01.2019 onwards*						
Long-term rating scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Short-term rating scale		S1	S2	S3, S4, NS		
EuroRating Sp. z o.o. *From entry into force to 31.12.2018*						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
EuroRating Sp. z o.o. *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA, A	BBB		BB	B, CCC, CC, C, D
Euler Hermes Rating GmbH						

From entry into force to 31.12.2018						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, SD, D
Euler Hermes Rating GmbH *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, SD, D
FERI EuroRating Services AG						
FERI EuroRating rating scale	AAA, AA	A		BBB, BB	B	CCC, CC, D
Fitch Ratings						
Long-term issuer credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations - Long-term ratings scale	AAA AA	A	BBB	BB	B	CCC, CC, C
Long-term international IFS ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Short-term rating scale	F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS ratings scale	F1+	F1	F2, F3	B, C		
GBB-Rating Gesellschaft fuer Bonitaets-beurteilung GmbH *From entry into force to 31.12.2018*						

Global long-term rating scale	AAA, AA		A, BBB	BB	B	CCC, CC, C, D
GBB-Rating Gesellschaft fuer Bonitaets-beurteilung GmbH *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA	A, BBB	BB	B	CCC, CC, C, D
ICAP Group S.A						
Global long-term rating scale		AA, A	BB, B	C, D	E, F	G, H
Japan Credit Rating Agency Ltd						
Long-term issuer ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, LD, D
Long-term issue ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer ratings scale	J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit ratings scale	J-1+	J-1	J-2	J-3, NJ, D		
Kroll Bond Rating Agency *From entry into force to 31.12.2018*						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	K1+	K1	K2, K3	B, C, D		
Kroll Bond Rating Agency						

From 01.01.2019 onwards						
Long-term credit rating scale		AAA, AA, A	BBB		BB	B, CCC, CC, C, D
Short-term credit rating scale		K1+, K1	K2, K3	B, C, D		
Moody's Investors Service						
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Bond fund rating scale	Aaa-bf, Aa-bf	A-bf	Baa-bf	Ba-bf	B-bf	Caa-bf, Ca-bf, C-bf
Global short-term rating scale	P-1	P-2	P-3	NP		
Standard & Poor's Ratings Services						
Long-term issuer credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Insurer financial strength ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, SD/D, R
Fund credit quality ratings scale	AAAf, AAf	Af	BBBf	BBf	Bf	CCCf
Mid Market Evaluation ratings scale		MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit ratings scale	A-1+	A-1	A-2, A-3	B, C, R, SD/D		

Short-term issue credit ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Scope Ratings AG *From entry into force to 31.12.2018*						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC,C, D
Global short-term rating scale	S-1+	S-1	S-2	S-3, S-4		
Scope Ratings AG *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, CC,C, D
Global short-term rating scale		S-1+, S-1	S-2	S-3, S-4		
Spread Research *From entry into force to 31.12.2018*						
International long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D

Spread Research *From 01.01.2019 onwards*						
International long-term rating scale		AAA, AA, A	BBB		BB	B, CCC, CC, C, D
The Economist Intelligence Unit Ltd						
Sovereign rating band scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

EUROPEAN COMMISSION

Brussels, XXX
[…](2015) XXX draft

COMMISSION IMPLEMENTING REGULATION (EU) No …/..

of XXX

on […]

JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES

COMMISSION IMPLEMENTING REGULATION (EU) No …/..

of XXX

laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC of the European Parliament and of the Council

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2009/138/EC of 25 November 2009 of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)[1], and in particular Article 109a(1) thereof,

Whereas:

(1) In accordance with Article 111(1)(n) of Directive 2009/138/EC, the allocation of credit assessments of external credit assessment institutions (ECAIs) to an objective scale of credit quality steps for the purposes of the calculation of the Solvency Capital Requirement (the 'allocation') needs to be consistent with the use of external credit assessments of ECAIs in the calculation of the capital requirements for credit institutions and financial institutions, as defined in Regulation (EU) No 575/2013 of the European Parliament and of the Council[2].

(2) Commission Implementing Regulation (EU) No …/… [3] establishes the mapping methodology for the use of external credit assessments of ECAIs in the calculation of the capital requirements for credit institutions and financial institutions, in particular the rules on how the relevant credit assessments are made correspondent to the six credit quality steps laid down in Regulation (EU) No 575/2013.

(3) For the purposes of the calculation of the Solvency Capital Requirement, Article 3 of Commission Delegated Regulation (EU) 2015/35[4] provides that the allocation is subject to a system of seven credit quality steps in contrast to the six credit quality

[1] OJ L 335, 17.12.2009, p.1.

[2] OJ L 176, 27.6.2013, p.1.

[3] Commission Implementing Regulation (EU) No …/.. of XXX laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (Not yet published in the Official Journal).

[4] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 12, 17.1.2015, p. 1).

steps laid down in Regulation (EU) No 575/2013 and used in the mapping methodology for credit institutions and financial institutions.

(4) In order to achieve the consistency required under Article 111(1)(n) of Directive 2009/138/EC, the allocation is based on the mapping methodology for credit institutions and financial institutions subject to alterations, where appropriate, taking into account the extra step laid down in the credit quality system of relevance for the calculation of the Solvency Capital Requirement.

(5) In order to properly balance prudential and market concerns, undue burdens on ECAIs which, as a result of their recent entrance in the market can present only limited quantitative information, this Regulation establishes two allocation arrangements for those ECAIs. The first allocation arrangement should apply for a limited period and the second allocation arrangement should apply thereafter. Both allocations should take into account quantitative and qualitative factors. Compared to the second allocation, the quantitative factors for deriving the first allocation should be relaxed. The first allocation arrangement should be applied for the limited period of three years, being the expected time necessary for those ECAIs to collect sufficient quantitative information to fall under an allocation arrangement that is based on quantitative factors that are not relaxed.

(6) The allocation arrangements apply to credit assessments of ECAIs, which are credit rating agencies that are registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council[5] or central bank issuing credit ratings which are exempt from the application of that Regulation, as well as to credit assessments endorsed by an ECAI in accordance with Regulation (EC) No 1060/2009.

(7) This Regulation is based on the draft implementing technical standards submitted by the European Supervisory Authorities (the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority) to the Commission.

(8) The European Supervisory Authorities have conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[6], the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council[7], and of the Securities and Markets Stakeholder Group established in accordance with

5 Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302 17.11.2009, p. 1).

6 Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

7 Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council[8],

HAS ADOPTED THIS REGULATION:

Article 1

The allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps shall be that set out in the Annex.

Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

8 Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

ANNEX

Allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps

Credit quality step	**0**	**1**	**2**	**3**	**4**	**5**	**6**
AM Best Europe-Rating Services Ltd.							
Long-term issuer credit ratings scale	aaa	aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, rs
Long-term debt ratings scale	aaa	aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d
Financial strength ratings scale		A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term ratings scale		AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4		
ARC Ratings S.A. *From entry into force of this Regulation to 31 December 2018*							
Medium and long-term issuers rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Medium and long-term issues rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuers rating scale		A-1+	A-1	A-2, A-3	B, C, D		

Short-term issues rating scale		A-1+	A-1	A-2, A-3	B, C, D		
ARC Ratings S.A. *From 1 January 2019 onwards*							
Medium and long-term issuers rating scale			AAA, AA, A		BBB	BB	B, CCC, CC, C, D
Medium and long-term issues rating scale			AAA, AA, A		BBB	BB	B, CCC, CC, C, D
Short-term issuers rating scale			A-1+, A-1		A-2, A-3, B, C, D		
Short-term issues rating scale			A-1+, A-1		A-2, A-3, B, C, D		
ASSEKURATA Assekuranz Rating-Agentur GmbH *From entry into force of this Regulation to 31 December 2018*							
Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC/C, D
Short-term corporate rating scale		A++	A		B, C, D		
ASSEKURATA Assekuranz Rating-Agentur GmbH *From 1 January 2019 onwards*							
Long-term credit rating scale			AAA, AA, A	BBB		BB	B, CCC, CC/C, D

Short-term corporate rating scale			A++, A		B, C, D		
Axesor SA *From entry into force of this Regulation to 31 December 2018*							
Global rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D, E
Axesor SA *From 1 January 2019 onwards*							
Global rating scale			AAA, AA, A	BBB	BB	B	CCC, CC, C, D, E
BCRA – Credit Rating Agency AD *From entry into force of this Regulation to 31 December 2018*							
Bank long-term ratings scale	AAA	AA	A	BBB	BB	B	C, D
Insurance long-term ratings scale	iAAA	iAA	iA	iBBB	iBB	iB	iC, iD
Corporate long-term ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Municipality long-term ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Issue long-term ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Bank short-term ratings scale		A-1+	A-1	A-2, A-3	B, C, D		

Corporate short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Municipality short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Issue short-term rating scale	A-1+	A-1	A-2, A-3	B, C, D		
BCRA – Credit Rating Agency AD *From 1 January 2019 onwards*						
Bank long-term ratings scale		AAA, AA, A	BBB	BB		B, C, D
Insurance long-term ratings scale		iAAA, iAA, iA	iBBB		iBB	iB, iC, iD
Corporate long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Municipality long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Issue long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Bank short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Corporate short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Municipality short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Issue short-term rating scale		A-1+, A-1	A-2, A-3	B, C, D		
Banque de France						

From entry into force of this Regulation to 31 December 2018							
Global long-term issuer credit ratings scale		3++	3+, 3	4+	4, 5+	5, 6	7, 8, 9, P
Banque de France *From 1 January 2019 onwards*							
Global long-term issuer credit ratings scale		3++	3+	3, 4+	4, 5+	5, 6	7, 8, 9, P
Capital Intelligence *From entry into force of this Regulation to 31 December 2018*							
International long-term issuer rating scale	AAA	AA	A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
International short-term issuer rating scale		A-1+	A-1	A-2, A-3	B, C, D		
International short-term issue rating scale		A-1+	A-1	A-2, A-3	B, C, D		
Capital Intelligence *From 1 January 2019 onwards*							
International long-term issuer rating scale			AAA, AA, A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale			AAA, AA, A	BBB	BB	B	CCC, CC, C, D
International short-term issuer rating scale			A-1+, A-1	A-2, A-3	B, C, D		

International short-term issue rating scale			A-1+, A-1	A-2, A-3	B, C, D		
Cerved Rating Agency S.p.A. *From entry into force of this Regulation to 31 December 2018*							
Corporate long-term rating scale	A1.1	A1.2, A1.3	A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
Cerved Rating Agency S.p.A. *From 1 January 2019 onwards*							
Corporate long-term rating scale			A1.1, A1.2, A1.3, A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
Creditreform Ratings AG *From entry into force of this Regulation to 31 December 2018*							
Long-term rating scale	AAA	AA	A	BBB	BB	B	C, D
Creditreform Ratings AG *From 1 January 2019 onwards*							
Long-term rating scale			AAA, AA, A	BBB	BB	B	C, D
CRIF S.p.A. *From entry into force of this Regulation to 31 December 2018*							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, D1, D2

CRIF S.p.A. *From 1 January 2019 onwards*							
Global long-term rating scale			AAA, AA, A	BBB	BB	B	CCC, D1, D2
Dagong Europe Credit Rating *From entry into force of this Regulation to 31 December 2018*							
Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale		A-1		A-2, A-3	B, C, D		
Dagong Europe Credit Rating *From 1 January 2019 onwards*							
Long-term credit rating scale			AAA, AA, A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale			A-1	A-2, A-3	B, C, D		
DBRS Ratings Limited							
Long-term obligations rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale		R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		
Claims paying ability rating scale		IC-1	IC-2	IC-3	IC-4	IC-5	D

European Rating Agency *From entry into force of this Regulation to 31 December 2018*							
Long-term rating scale			AAA, AA, A	BBB	BB	B	CCC, CC, C, D
Short-term rating scale			S1	S2	S3, S4, NS		
European Rating Agency *From 1 January 2019 onwards*							
Long-term rating scale			AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Short-term rating scale			S1	S2	S3, S4, NS		
EuroRating Sp. z o.o. *From entry into force of this Regulation to 31 December 2018*							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
EuroRating Sp. z o.o. *From 1 January 2019 onwards*							
Global long-term rating scale			AAA, AA, A	BBB		BB	B, CCC, CC, C, D
Euler Hermes Rating *From entry into force of this Regulation to 31 December 2018*							

Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, SD, D
Euler Hermes Rating *From 1 January 2019 onwards*							
Global long-term rating scale			AAA, AA, A	BBB	BB	B	CCC, CC, C, SD, D
FERI EuroRating Services AG							
FERI EuroRating rating scale	AAA	AA	A		BBB, BB	B	CCC, CC, D
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 UK, Fitch Ratings CIS Limited							
Long-term issuer credit ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations - Long-term ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C
Long-term international IFS ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C
Short-term rating scale		F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS ratings scale		F1+	F1	F2, F3	B, C		
GBB-Rating Gesellschaft fuer Bonitaetsbeurteilung GmbH *From entry into force of this Regulation to 31 December 2018*							

Global long-term rating scale	AAA	AA		A, BBB	BB	B	CCC, CC, C, D
GBB-Rating Gesellschaft fuer Bonitaetsbeurteilung GmbH *From 1 January 2019 onwards*							
Global long-term rating scale			AAA, AA	A, BBB	BB	B	CCC, CC, C, D
ICAP Group S.A							
Global long-term rating scale			AA, A	BB, B	C, D	E, F	G, H
Japan Credit Rating Agency Ltd							
Long-term issuer ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, LD, D
Long-term issue ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer ratings scale		J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit ratings scale		J-1+	J-1	J-2	J-3, NJ, D		
Kroll Bond Rating Agency *From entry into force of this Regulation to 31 December 2018*							
Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D

Short-term credit rating scale		K1+	K1	K2, K3	B, C, D		
Kroll Bond Rating Agency *From 1 January 2019 onwards*							
Long-term credit rating scale			AAA, AA, A	BBB		BB	B, CCC, CC, C, D
Short-term credit rating scale			K1+, K1	K2, K3	B, C, D		
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							
Global long-term rating scale	Aaa	Aa	A	Baa	Ba	B	Caa, Ca, C
Bond fund rating scale	Aaa-bf	Aa-bf	A-bf	Baa-bf	Ba-bf	B-bf	Caa-bf, Ca-bf, C-bf
Global short-term rating scale		P-1	P-2	P-3	NP		
Standard & Poor's Credit Market Services France S.A.S., Standard & Poor's Credit Market Services Italy S.r.l., Standard & Poor's Credit Market Services Europe Limited							
Long-term issuer credit ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Insurer financial strength ratings scale	AAA	AA	A	BBB	BB	B	CCC, CC, SD/D, R

Fund credit quality ratings scale	AAAf	AAf	Af	BBBf	BBf	Bf	CCCf
Mid market evaluation ratings scale			MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit ratings scale		A-1+	A-1	A-2, A-3	B, C, R, SD/D		
Short-term issue credit ratings scale		A-1+	A-1	A-2, A-3	B, C, D		
Scope Rating *From entry into force of this Regulation to 31 December 2018*							
Global long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC,C, D
Global short-term rating scale		S-1+	S-1	S-2	S-3, S-4		
Scope Rating *From 1 January 2019 onwards*							
Global long-term rating scale			AAA, AA, A	BBB	BB	B	CCC, CC,C, D
Global short-term rating scale			S-1+, S-1	S-2	S-3, S-4		
Spread Research *From entry into force of this Regulation to 31 December 2018*							
International long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D

Spread Research *From 1 January 2019 onwards*							
International long-term rating scale			AAA, AA, A	BBB		BB	B, CCC, CC, C, D
The Economist Intelligence Unit Ltd							
Sovereign rating band scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D