

PUBLIC STATEMENT

Endorsement of credit ratings elaborated in the United Kingdom in the event of a no-deal Brexit

1. The European Securities and Markets Authority (ESMA) is issuing this public statement to set out the implications of Brexit for credit rating agencies (CRAs) based in the United Kingdom (UK). The statement follows ESMA's previous [statement of 9 November 2018](#).
2. ESMA currently supervises [the following CRAs](#) located in the UK¹ (hereinafter: "UK-based CRAs"): *AM Best Europe-Rating Services Ltd.*; *DBRS Ratings Limited*; *Fitch Ratings Limited*; *Fitch Ratings CIS Limited*; *Moody's Investors Service Ltd*; *Moody's Investors Service EMEA Ltd*; and *The Economist Intelligence Unit Ltd*.
3. If the UK leaves the European Union (EU) without a withdrawal agreement (hereinafter: "no-deal Brexit scenario"), UK-based CRAs will no longer meet the conditions for registration and their registrations will be withdrawn changing their status to third-country CRAs. In this event, the outstanding credit ratings of UK-based CRAs will only continue to be usable for regulatory purposes in the EU if the credit ratings are "endorsed" by a CRA which is located in an EU Member State (hereinafter: "an EU27 CRA"). Where the outstanding credit ratings of UK-based CRAs are not endorsed by an EU27 CRA, these credit ratings will cease to be usable for regulatory purposes in the EU as set out in Article 24(4) of Regulation 1060/2009 on CRAs (hereinafter: [the CRA Regulation](#)).
4. As a part of the necessary contingency planning, ESMA has requested UK-based CRAs to take all the necessary steps to reduce the risk of a cliff-edge in a no-deal Brexit scenario. As a result, UK-based CRAs have in the course of the last two years transferred business and rating activities to existing and in some cases newly established and registered EU27 CRAs.
5. For a credit rating issued by a third-country CRA to be "endorsed" by an EU27 CRA, the CRA Regulation requires a set of strict conditions to be met. Some of these conditions relate to the legal and supervisory framework in the third country, whereas some of the conditions relate to the EU27 and third-country CRAs which wish to make use of the endorsement regime. The conditions for endorsement from the UK in a no-deal Brexit scenario are no different from the conditions for endorsement from any other third country.

¹ S&P Global Ratings Europe Limited is established in the EU27. S&P does not have any registered entity based in the UK but currently operates in the EU via a unique EU27 legal entity based in Dublin with branches in various EU locations.

The foreseen UK legal and supervisory framework meets the conditions for endorsement

6. It is a condition for endorsement that the UK has a legal and supervisory framework in place for CRAs which meets a certain standard. ESMA has completed an assessment of the legal and supervisory framework for CRAs foreseen by the [UK statutory instrument 226 of 13 February 2019](#), which will take effect on the date of Brexit, in a no-deal Brexit scenario. ESMA concludes that the foreseen UK legal and supervisory framework for CRAs meets the conditions for endorsement, if it has fully entered into force on the date of Brexit in unaltered form.
7. It is also a condition for endorsement that ESMA has a cooperation agreement with the supervisory authority of the UK. This condition is met by the [memorandum of understanding](#) which was agreed on 1 of February 2019 and which will take effect on the date of Brexit, in a no-deal Brexit scenario.

Most UK based CRAs have taken the necessary steps to prepare for the endorsement regime

8. Endorsement requires that an EU27 CRA is willing to endorse the credit ratings issued by a UK-based CRA. The EU27 CRA must notify ESMA of its intention to endorse credit ratings from the UK-based CRA. As of today, all UK-based CRAs except *The Economist Intelligence Unit Ltd* have taken steps to ensure that an EU27 CRA is willing and able to endorse its credit ratings in a no-deal Brexit scenario:
9. **Four UK-based CRAs were already members of a group comprising a registered EU27 CRA:** *Fitch Ratings Limited* and *Fitch Ratings CIS Limited* are both members of the same group of CRAs as *Fitch Ratings España S.A.U.*, which has notified ESMA of its intention to endorse credit ratings from the UK in a no-deal Brexit scenario. *Moody's Investors Service Ltd* and *Moody's Investors Service EMEA Ltd* are both members of the same group of CRAs as *Moody's Deutschland GmbH*, which has notified ESMA of its intention to endorse credit ratings from the UK in a no-deal Brexit scenario.
10. **Two UK-based CRAs have recently established a CRA in an EU27 Member State to prepare for endorsement:** On 3 December, *A.M. Best (EU) Rating Services B.V.*, a member of the same group of CRAs as the UK-based CRA *AM Best Europe-Rating Services Limited*, was established in the Netherlands and registered with ESMA. Similarly, on 12 December, *DBRS Rating GmbH*, a member of the same group of CRAs as the UK-based CRA *DBRS Ratings Limited*, was established in Germany and registered with ESMA. Both of these two newly registered EU27 CRAs have notified ESMA of their intention to endorse credit ratings from the UK in a no-deal Brexit scenario.

Objective reasons for elaborating a credit rating outside the EU

11. The CRA Regulation only allows for endorsement of a credit rating where there is an objective reason for elaborating the credit rating outside the Union (e.g. where the rating relates to a non-EU entity or instrument). As part of their preparation for Brexit, UK-based CRAs have been transferring the issuance of credit ratings to an affiliated EU27 CRA with the aim of ensuring that the UK-based CRA only issues credit ratings which would meet this requirement and thus be eligible for endorsement.



The final decision to endorse credit ratings lies with the CRA

12. Whilst ESMA can confirm that the above listed conditions for endorsement are met, the decision to endorse some or all of the credit ratings issued by UK-based CRAs lies exclusively with the EU27 CRAs.