

To  
European Securities and Markets Authority  
Submitted via Web

Date: August 4<sup>th</sup>, 2021

**Reference: Consultation Paper on Guidelines on Disclosure Requirements for Initial Reviews and Preliminary Ratings**

Dear ESMA,

AM Best welcomes the opportunity to provide our views on ESMA's Consultation Paper on "Guidelines on Disclosure Requirements for Initial Reviews and Preliminary Ratings" dated 26 March 2021. In this response letter, we are providing responses to the questions raised to CRAs.

**Q1. Do you agree that the common understanding would improve the quality of your CRA's disclosures on entities or debt instruments submitted for initial review or preliminary rating? If you do not agree, please explain.**

AM Best appreciates ESMA's proposal for a definition of Initial / Preliminary Ratings and finds it beneficial. However, as proposed now in the consultation paper, we think the definition is too broad.

Whilst a broad definition is helpful AM Best would question whether this would sufficiently capture informal assessments that do not correspond to a specific or defined product. AM Best is aware, to its detriment in competitive situations (having being advised by prospects), that other (large) CRAs are prepared to provide informal but specific feedback on potential rating outcomes. Given that this does not correspond to a specific or defined product it is questionable how, within a large CRA organisation, such assessments are capable of being captured centrally by a compliance function and therefore reported. ESMA may wish to consider what other measures it might wish to take to address this issue.

Currently AM Best offers three Non-Rating Opinion options: Rating Assessment Service (RAS), Rating Evaluation Service (RES) and Preliminary Credit Assessment (PCA).

- The Rating Assessment Service (RAS) provides a point in time opinion, not subject to ongoing surveillance or update, of an entity's rating prospects and is expressed as a range of outcomes based solely on data provided by the entity, and is only performed for an entity which is not rated by AM Best at the time the service is provided.
- The Rating Evaluation Service (RES) provides a point-in-time opinion of the impact of one or more hypothetical scenarios on a company's creditworthiness. It is only performed for an entity that is already rated by AM Best and the resulting RES opinion is not a Best's Credit Rating (BCR).
- The Preliminary Credit Assessment (PCA) is a point-in-time opinion of the creditworthiness of an issuer, obligor or security which is based on business plans, term sheets and AM Best expectations relative to the execution of such business plans that may be determined by a rating committee.

As described now, ESMA's definition could also include RES, however, RES is not a initial/ preliminary rating, it is a non-rating opinion issued for an existing client. We kindly ask ESMA to clarify, through the consultation process, if a product like AM Best's RES is within the scope of the new Guideline.

**Q2. Do you agree that the common understanding is applicable also to initial review or preliminary ratings provided on Structured Finance Instruments? If you do not agree, please explain.**

We do not see any reason why the same definition would not apply to Structured Finance Instruments.



**Q4. Do you agree that the information to be disclosed is feasible and that it will improve the quality of your CRA's disclosures in this area? If you do not agree, please explain.**

ESMA expects CRAs to disclose the following information with regard to preliminary ratings or initial reviews:

- i. The name of the entity or debt instrument.
- ii. The Legal Entity Identifier (LEI) or ISIN of the entity or debt instrument.
- iii. The segment / asset class of the entity or debt instrument.
- iv. The date the initial review or preliminary rating was provided.

The only difficulty we could envisage at this moment regarding the above requested information would be to provide the LEI number, as not all entities currently have currently a LEI. This is particularly the case where AM Best is asked to provide a rating to a "start-up" entity. We expect that we will follow the current practice from the RADAR guideline, where a missing LEI would be replaced with the reporting company's unique key. It would be helpful if ESMA could further clarify the approach to be taken towards such cases in the final Guideline on Disclosure Requirements for Initial Reviews and Preliminary Ratings, so as not to leave room for error and interpretation.

**Q6. Do you agree that the proposed timing of these disclosures is feasible and will increase the value of these disclosures? If you do not agree please explain.**

In our experience, in a smaller organisation, the compilation of this data is often a manual exercise. If the first Wednesday of the month is the 1st or 2nd of the respective month, the relevant data might not be available. Similarly, we only have a small number of compliance people in the office and so sickness / holiday could cause major challenges. We propose to re-phrase along the lines of, for example:

*"CRA's should publish by the 10th calendar day of the month, any entities or debt instruments for which that CRA provided an initial review or preliminary rating in the preceding month."*

**Q10. Do you agree that centralising accessibility to this information will improve the value of CRAs disclosures on an overall basis? If you do not agree please explain.**

Given the fact that the disclosures will remain on the CRA's website, and users will still need to review all reports from all CRAs in order to assess whether rating shopping has occurred in a specific case of interest, AM Best sees little added value to the disclosures that are currently required. We understand the intention, but the actual applicability stays extremely limited in our opinion.

We agree that the public disclosure at the CRA website should be accessible without the need to register a user account.

**Q12. Do you consider there is value in ESMA providing a standardised disclosure template for these public disclosures? Do you have any additional comments on the standardised disclosure template.**

Further to our comments to ESMA's question 4, we suggest that the final three "Additional text" columns be merged into one "Comments" section, so as not to leave room for interpretation.

AM Best does not have additional feedback regarding the proposed standard template. We do not expect difficulties in implementing the proposed template.

**Q13. Do you have any comments on the preliminary cost benefit analysis?**

AM Best has no particular comments on the cost benefit analysis other than to reiterate the comment above that it does not believe the proposed changes will have any benefit.

