ESMA Call for Evidence

Supplemental Material (Annex) to Scope Ratings GmbH's public response

Navigate the .pdf by clicking on the corresponding document in the listing below.

Listing of documents

Private credit

Rating agencies in public brawl over scores for private credit

Spat stems from retracted study on grading of insurers' portfolio holdings

Kroll accused Fitch Ratings of misleading the market by relying on a withdrawn study to raise doubts about the quality of its ratings
© Bloomberg

Will Schmitt and **George Steer** in New York and **Lee Harris** in London

Published MAY 24 2025

Two US credit rating agencies have become embroiled in a rare public dispute over the reliability of scores for insurance companies' growing stash of private credit investments.

The dispute involves a study, since withdrawn by its publisher, purporting to find that small credit rating agencies assign more generous scores to private credit investments than the larger and more established ones. Kroll Bond Rating Agency has accused Fitch Ratings of misleading market participants by relying on the study to raise doubts about the quality of its ratings.

Fitch on Monday published a report critical of Kroll and other groups, based on the 2024 study, issued by the National Association of Insurance Commissioners.

A Fitch spokesperson stood by its report, arguing the insurance commissioner's group reached similar conclusions in prior studies. "If the (association) provides new information, we will update our analysis."

The unusually overt quarrel highlights the intense competition in the fast-growing and lucrative $1.6tn private credit industry to carve out turf — not just among lenders, but among the groups paid to referee creditworthiness of the market's opaque investment offerings.

"There's a build-up of risk in the insurance industry and also potentially in the collateralised loan sector that is not being properly monitored," said Ann Rutledge, a former senior Moody's analyst and now chief executive of rating agency CreditSpectrum. "The opacity and the risk are both attributable to the fact that there are cracks in the foundation of the current SEC-regulated credit rating industry."

Insurers and other investors use the types of ratings in question, known as private letter ratings, when no public ratings are available. Larger ratings firms historically have eschewed issuing these types of scores for private credit products, leaving the market dominated by smaller agencies.

Private letter investments were "inherently more risky given the lack of transparency and potential ratings inflation", analysts at JPMorgan said in a recent note, adding "there is an inherent challenge in assessing credit quality from the outside as no part of the process, analysis, or information is transparent from the outside".

Kroll, which was among the first to challenge the establishment credit agencies with its launch after the global financial crisis, said it was troubled by its larger rival's boosting of "statistically unsound" research. It said Fitch's criticism appeared geared towards supporting its own grab for dominance.

"In seeking relevance to increase its market share in private credit, Fitch appears to have undercut two foundational principles for any rating agency — integrity and analytical rigour," Kroll said in a statement.

The study by the NAIC focused on the rise of private letter ratings for insurers' private credit investments, which totalled about $350bn at the end of 2023.

It found confidentially-issued grades from smaller rating shops were more likely to deviate from scores by the association's own securities valuation office and were notably higher on average. According to the original report, smaller groups such as Kroll tended to offer ratings three notches higher than the association's internal score, while larger agencies such as Fitch offered ratings about two notches higher.

The study also showed that the number of privately rated securities held by US insurers grew from 2,850 in 2019 to 8,152 in 2023, and that the share of securities rated by small credit rating providers such as Egan-Jones, Kroll and Morningstar had grown to 86 per cent in 2023.

The report also noted that Fitch is the leading provider of private letter ratings among the big three US rating agencies, ahead of S&P Global Ratings and Moody's Ratings.

But earlier this month, the insurance association announced it was removing the report from its website "to undergo further editorial work to clarify the analysis presented".

Without naming names, the insurance association said it would “evaluate how the information we provide to the public could be misconstrued or otherwise utilised in inappropriate ways”.

The NAIC declined a request for comment.

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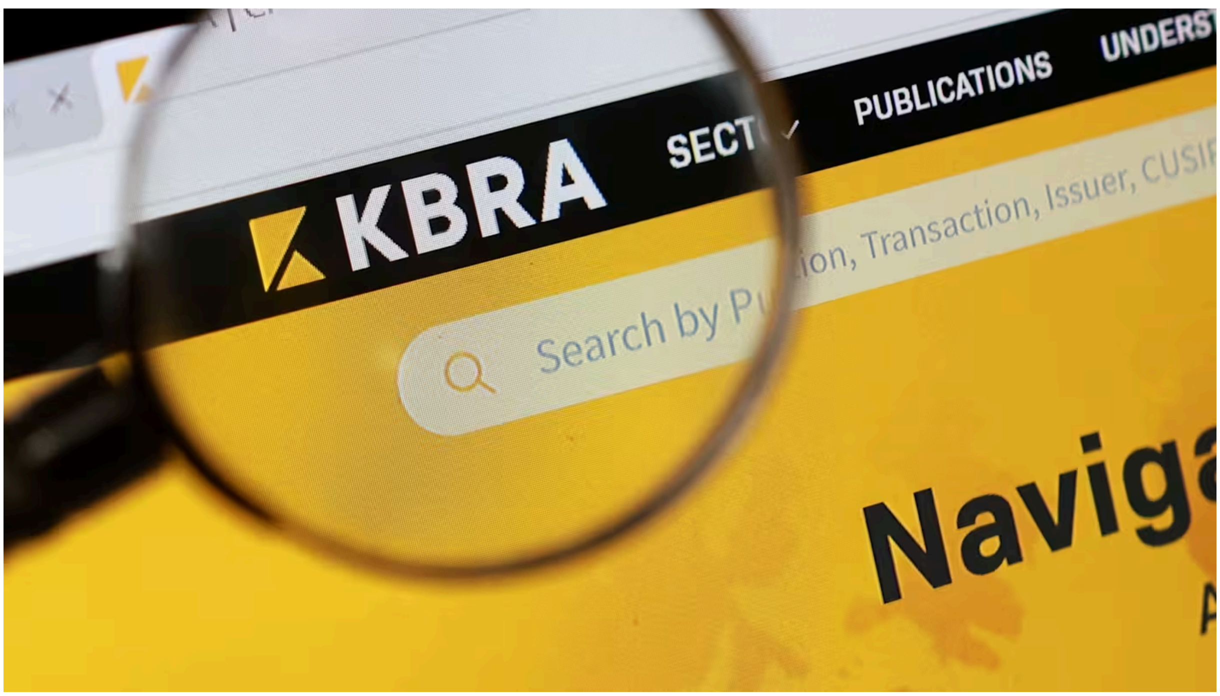
Kroll Bond Rating Agency Inc

Alphaville Kroll Bond Rating Agency Inc

Private credit rating agency fights back against one of the market's greatest threats: the FT

KBRA excludes media from event 'debunking some of the recent misleading media headlines focusing on private credit'



© Reuters

Robert Smith in London

Published NOV 17 2025

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Kroll Bond Rating Agency is offering assistance to investors in dealing with the three main scourges of the private credit market: defaults, cockroaches and the Financial Times.

KBRA, a specialist rating agency that focuses on esoteric asset-backed securities and private credit, is hosting a webinar on Tuesday with an intriguing title:

The event description offers more clues to the ground that will be covered in the session:

> Please join KBRA on November 18, 2025, at 11:30 AM EST for a data-driven discussion debunking some of the recent misleading media headlines focusing on private credit and credit ratings. Additional topics will include rising defaults within the private credit space as well as recent defaults that have been misclassified as private credit.

We imagine that KBRA is slightly sore at their inclusion in this recent FT article about the boom in so-called "private letter ratings" issued by smaller firms outside the Big Three agencies (S&P, Moody's and Fitch).

A lot of the market anxiety has focused on Egan-Jones, whose team of 20 or so analysts managed the Stakhanovite feat of issuing more than 3,600 ratings last year alone. The FT piece actually includes commentary from the likes of Apollo chief Marc Rowan distinguishing KBRA from some of these more upstart rating agencies. But apparently the rating agency still feels it needs to defend its honour against unfair media scrutiny.

The session also appears to tackle recent commentary about the plague of "cockroaches" blighting credit markets, a reference to Jamie Dimon's memorable metaphor to describe a rush of recent debt defaults from allegedly fraudulent borrowers.

KBRA, naturally, handed a pristine triple-A rating to the top-ranking tranche of asset-backed securities issued by Tricolor earlier this year, months before the subprime auto lender collapsed into bankruptcy amid allegations of fraud:

Executive Summary

This new issue report summarizes Kroll Bond Rating Agency's (KBRA) analysis of Tricolor Auto Securitization Trust 2025-2 ("TAST 2025-2" or the "Issuer"), a subprime auto loan ABS transaction. This report is based on information as of June 18, 2025. This report does not constitute a recommendation to buy, hold, or sell securities.

Rated Notes					
Class	Initial Amount ($)	Interest Rate	Legal Final Maturity Date	Initial Credit Enhancement (%)	KBRA Rating
A	131,090,000	5.12%	Jan 15, 2029	51.70%	AAA (sf)
B	27,120,000	5.34%	Sep 17, 2029	41.40%	AA- (sf)
C	13,950,000	5.43%	Apr 15, 2031	36.10%	A (sf)
D	17,110,000	5.91%	Apr 15, 2031	29.60%	BBB (sf)
E	10,270,000	8.35%	Apr 15, 2031	25.70%	BB+ (sf)
F	17,640,000	11.23%	Mar 15, 2032	19.00%	B+ (sf)
Total	217,180,000				

While it's true that there has also been a bank and public debt market nexus to many of the recent "cockroaches", KBRA itself seems to be pushing things in order to distance the private credit industry from some of the recent fiascos.

For example, the rating agency last month insisted that the private credit industry had "minimal" exposure to First Brands Group's bankruptcy. This is despite the fact that Cleveland-based auto parts manufacturer raised billions of dollars in off-balance sheet financing from self-described private credit firms.

FT Alphaville was therefore interested to hear how KBRA proposes to deal with recent media scrutiny and perhaps even participate in the discussion. Unfortunately, our attempt to sign up was met with a curt email reply:

> We regret to inform you that your registration does not meet the criteria for attendance.

We've asked KBRA on what grounds the FT was blocked from attending a webinar focused in part on "debunking" the FT's journalism. In the meantime, we would query whether KBRA is really well positioned to help investors "deal" with the FT and other probing media organisations if it lacks a basic understanding of the Streisand effect.

Further reading:

— The new crop of rating agencies behind the private credit boom

— Rating the rating data of credit raters

— Why are people being mean about Egan-Jones?

Follow the topics in this article

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Financials

Kroll Bond Rating Agency Inc

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Alphaville Private credit

What’s up with private credit ratings?

Could this be a film we’ve seen before?

Toby Nangle

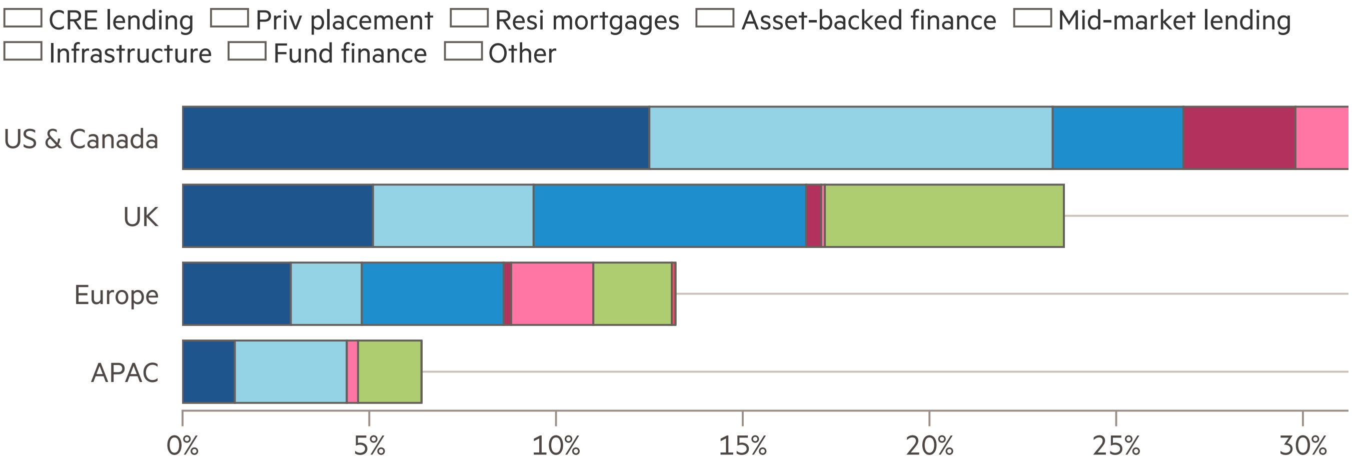
Published OCT 24 2025

There’s no real reason for individual direct loans held by a private credit fund to carry a credit rating. Very few do. But loans held by insurers? They’re different.

And we know that insurers everywhere hold a lot of private credit. US private equity-sponsored life insurers in particular lead the charge:

Private credit allocations largest in the US

% of insurers' total investments



FINANCIAL TIMES Source: Moody's Ratings 2024 • Based on a sample of 30 companies globally with $5.3tn of investments. Considers only general account/ shareholder assets.

It's not that the insurers lack the wherewithal to come up with their own opinions about how likely it is that a borrower will default. It's just that their regulators want them to have more capital for the risky stuff they own. The more boring their assets, the more leverage their insurance supervisor will let them accumulate. And you know what's really boring? Investment grade credit.

As the IMF wrote in last week's Global Financial Stability Report, "most insurers' exposure to private credit is classified as investment grade". But investment grade according to who? Mostly, it turns out, not according to Moody's, S&P, or Fitch.

The number of securities that Moody's, S&P and Fitch collectively rated stayed pretty much flat between 2020 and 2023. But the total number of privately rated securities ballooned over the period. And it was the little guys that scooped up this business: ~~AM Best~~, Egan-Jones, HR Ratings, the Kroll Bond Rating Agency, and Morningstar DBRS. [*Update — while AM Best was listed in the redacted NAIC report as one of the five specialised rating agencies, it turns out they don't issue private letter ratings.*]

An explosion in the number of privately-rated securities

Privately rated securities held by US insurers

Big-3 rating agencies Specialised rating agencies

Number

8000

Oligopolies are generally bad, so this explosive growth on the part of the little guys is . . . good? The IMF doesn't seems sure, noting that:

> Insurers' search for private credit exposures classified as investment grade has changed the rating landscape in the United States . . . Misclassification of below-investment-grade instruments into the investment-grade bucket may result in default losses significantly exceeding those expected during an economic shock, leading to the erosion of insurers' capital and potentially causing liquidity gaps because of insufficient cash flow from the defaulted entities.

Why would the rise of so-called private letter ratings be in any way connected with misclassification of below investment grade instruments into the investment grade bucket? On this question the IMF is silent.

But it might have something to do with a story covered by MainFT back in May.

Hold on, I don't read every FT story, can you remind me?

The US lacks a single supervisory regime for insurance, with every state having its own regime. And so, rather than potential problems just being identified and resolved centrally, it falls to the National Association of Insurance Commissioners, as US insurance supervisor cat-herder-in-chief, to flag issues, convene working groups, and develop consensus.

Earlier this year we covered their multiyear efforts to remove a completely wacky and irrational capital arbitrage opportunity that arises if insurers securitise their junk. As far as we're aware, it's still in place.

One of the issues that the NAIC has been looking at is potential rating-inflation in the private credit arena. It published a short report on the topic, which got broad attention only when Kroll Bond Rating Agency accused Fitch Ratings of misleading market participants by relying on the study to raise doubts about the quality of its ratings.

A highly entertaining public spat ensued, and in May the NAIC removed the report from their website "to undergo further editorial work to clarify the analysis presented". This editorial work appears still to be ongoing as an updated version is nowhere to be found.

But we did find a copy of their original report on Egan-Jones' website. The retracted analysis stated that:

> NAIC designations based on PLRs [private letter ratings] averaged 2.74 notches higher than designations assigned by the NAIC Securities Valuation Office (SVO), according to data from 2023, with designations 3 notches higher at small CRPs [credit rating providers] and 1.9 notches higher at large CRPs.

Three notches seems a lot.

OK, so what do I need to know about NAIC insurance ratings?

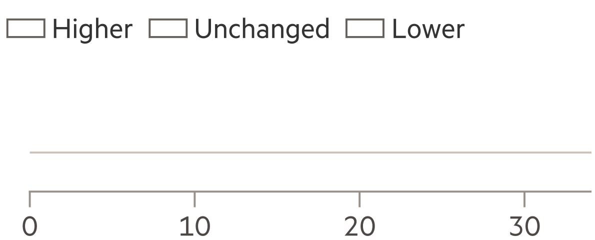
Insurers need to report investments using NAIC designations for accounting and risk-based capital calculations. Ratings from all the credit rating agencies map to these designations: NAIC 1-2 is investment grade, and NAIC 3-6 corresponds to various forms of junk. If a loan is unrated, it is be treated as NAIC designation 6, which is bad and very capital intensive.

So when an insurer makes a loan, the loan really needs to be rated. Absent a rating, they can go to the NAIC’s Securities Valuation Office to get an NAIC designation, for a fee.

Highly-rated loans require less risk-based capital than lesser-rated loans. So, regardless of actual credit quality, insurers will want the loans they make to have the highest ratings possible from a regulatory capital perspective.

Sometimes a loan starts off with an NAIC designation provided by the SVO, and then becomes rated by a rating agency. When this happens, the NAIC can compare its own SVO’s ratings to the new rating the insurer has purchased. And there’s nothing to stop the NAIC from publishing their findings:

What happens when ratings move from NAIC to a private letter rating?



FINANCIAL TIMES

Source: NAIC 202

The NAIC found that 80 per cent of the 109 securities migrating from a SVO-assigned designation to a PLR-driven designation in 2023 received upgrades, just 4 per cent were downgraded and the rest were unchanged.

Alphaville has no view as to whether the SVO is a better judge of credit risk than rating agencies, large or small. We can see that if an insurer thinks that the SVO has got things wildly wrong, it might be worth them paying up for a second opinion.

After all, an upgrade means they can use more leverage, write more business, make more money. And so there's a good reason why four-fifths of re-rating events result in upgrades. The little guys accounted for three quarters of these higher ratings, and the eight instances where a rating moved six or more notches (!!) were all from these smaller firms.

All this led the NAIC to write that:

> As a matter of policy, the NAIC and insurance industry must deem any one particular CRP rating as the functional equivalent of any other, regardless of the methodology used or consistency of the ratings assigned. That is, a AAA rating is treated as AAA no matter which CRP assigns the rating. However, as noted above, the NAIC has observe disparities between CRP ratings of the same credit, particularly with PLRs. These rating disparities, some of which are significant, call into question the quality and comparability of PLRs, and they could have an averse impact on capital requirements under the RBC [risk-based capital] framework.

Maybe it's a cost thing?

Let's for now put aside possibility that insurers are ratings-shopping to reduce their risk-based capital. Maybe the little guys are just better value?

Unfortunately, there's no publicly available rate card we can use to compare costs. But Alphaville understands that you can get an initial corporate analysis from one of the smaller firms at less than half the average price of one issued by the big three. That said, the sticker rates vary quite meaningfully by agency.

Bloomberg reported earlier this year that one small rating agency is keeping its costs pretty tightly controlled. Perhaps this enables them to pass on better value to their clients?

This is the best shot we can find showing the corporate headquarters of Egan-Jones:

61 Haverford Station road Haverford PA 19041-1506 © Google Maps

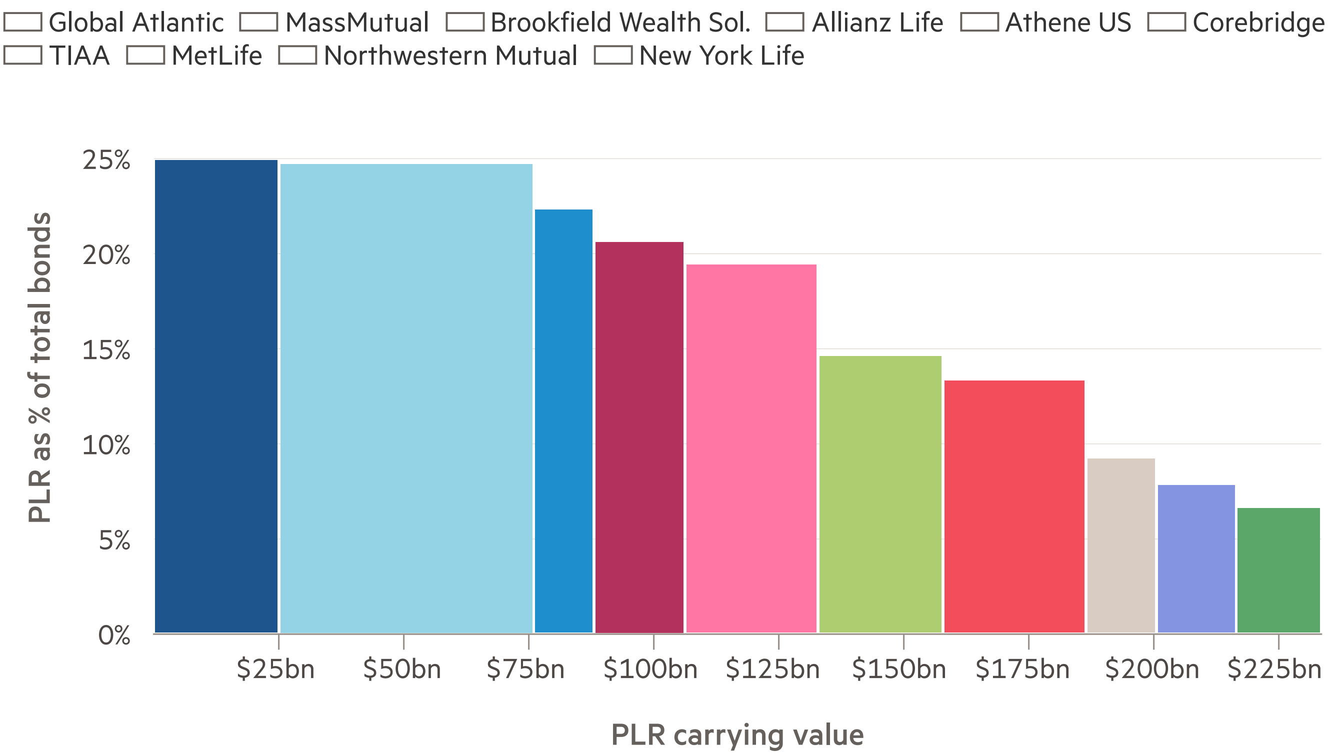
At the end of 2023, Bloomberg found that the firm, headquartered in this four-bedroom house just outside Philadelphia, employed just 20 analysts. And yet was able in 2024 to rate more than 3,000 private credit deals.

We at Alphaville salute their Stakhanovite work ethic.

How does this impact individual insurers?

According to Moody's Ratings, just under 12 per cent of US life insurers' bond holdings use private letter ratings. But usage is uneven:

Top 10 holders of private letter rated bonds held 55% of the total industry's private letter rated bonds



FINANCIAL TIMES Source: Moody's Ratings, June 2025 • Analysis based on year-end 2024 data and includes busines reinsured on modified coinsurance with funds withheld basis.

Global Atlantic — the insurer 100 per cent owned by private equity group KKR & Co — leads the pack with a quarter of its $100bn bond portfolio carrying private letter ratings. MassMutual, the mutually-owned insurance company that owns Barings, holds more than $50bn of privately-rated securities. Other insurers, like New York Life, had a measly 6.7 per cent of their bond book privately rated.

What's the bottom line?

It's the IMF's business to worry about everything, from equity valuation, to the basis trade, fiscal sustainability, and the interconnectedness of nonbank financial institutions. It feels fair to throw into this mix the possible undercapitalisation of insurance companies based on private rating misclassification risks. And it looks — at least on this side of the Atlantic — like an issue that is going to get more and more attention.

In simpler times, the big three rating agencies were the go-to bad guys. Allegations that they hawked around inflated ratings, and as such were complicit in the subprime securitisation fiasco that snowballed into the global financial crisis, left a nasty shadow hanging over their integrity. How times have changed.

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Insurance

Private loan credit ratings may be 'systematically' inflated, warns BIS

Lack of transparency of debt popular with US insurers increases risk of 'fire sales', report says

Reliance on private ratings is just one example of the broader financial stability risks building up in the life insurance sector, according to the Bank for International Settlements © Ylan/Alamy

Lee Harris and **Euan Healy** in London

Published OCT 27 2025

Credit ratings on private loans held by US insurers may have been systematically inflated, the Bank for International Settlements has warned in a new paper on the growing risk of “fire sales” during periods of financial turmoil.

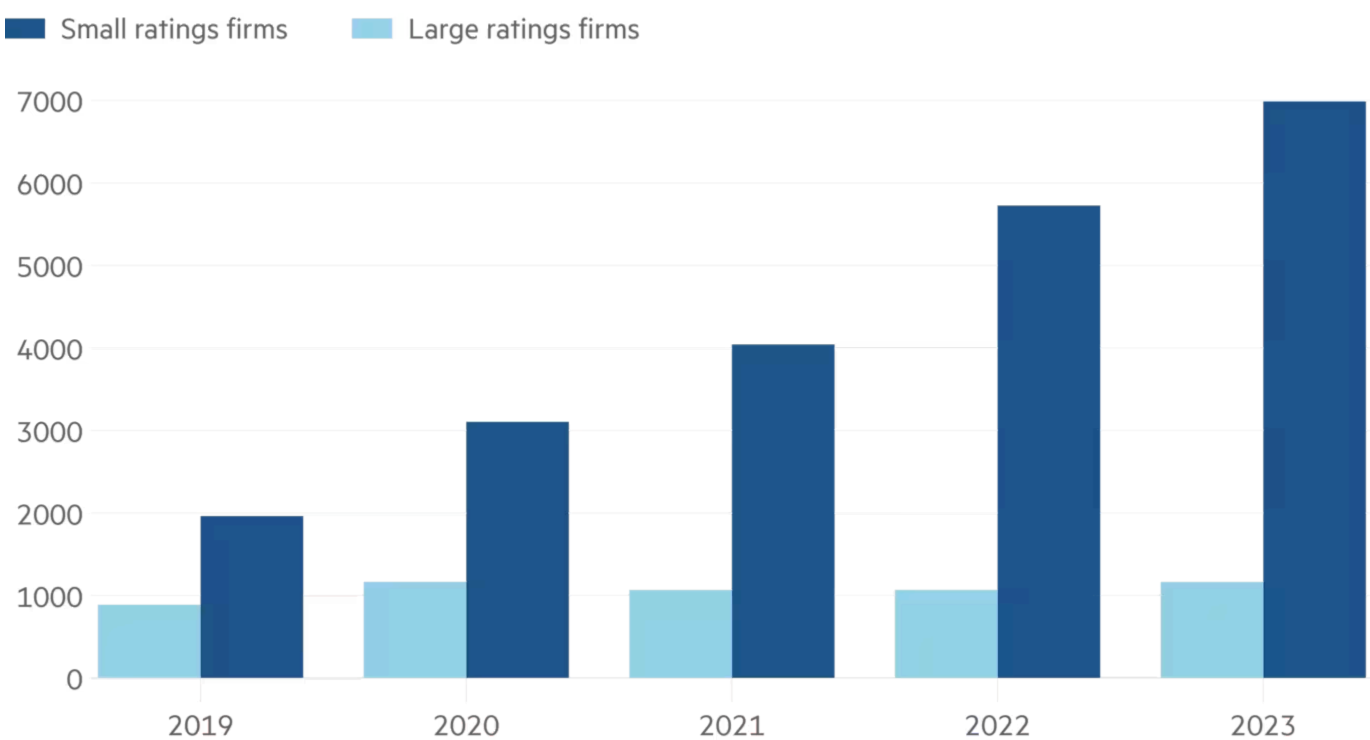
Ratings on private credit investments have come under scrutiny following a rise in insolvencies and recent high-profile bankruptcies at car parts maker First Brands and auto lender Tricolor. The rapid collapse of the two businesses has rattled credit markets, with some investors highlighting concerns over their complex funding structures.

Smaller rating agencies have captured market share in the fast-growing world of private credit by providing so-called private letter ratings, which are typically only visible to an issuer and select investors. US life insurers have been among the biggest buyers of such debt.

The number of insurance securities rated by Moody’s, S&P and Fitch, the big three rating agencies, has been largely flat in recent years, while the quantity rated by smaller providers has grown rapidly.

Small credit rating providers have taken market share in recent years

Number of privately rated securities



Source: National Association of Insurance Commissioners

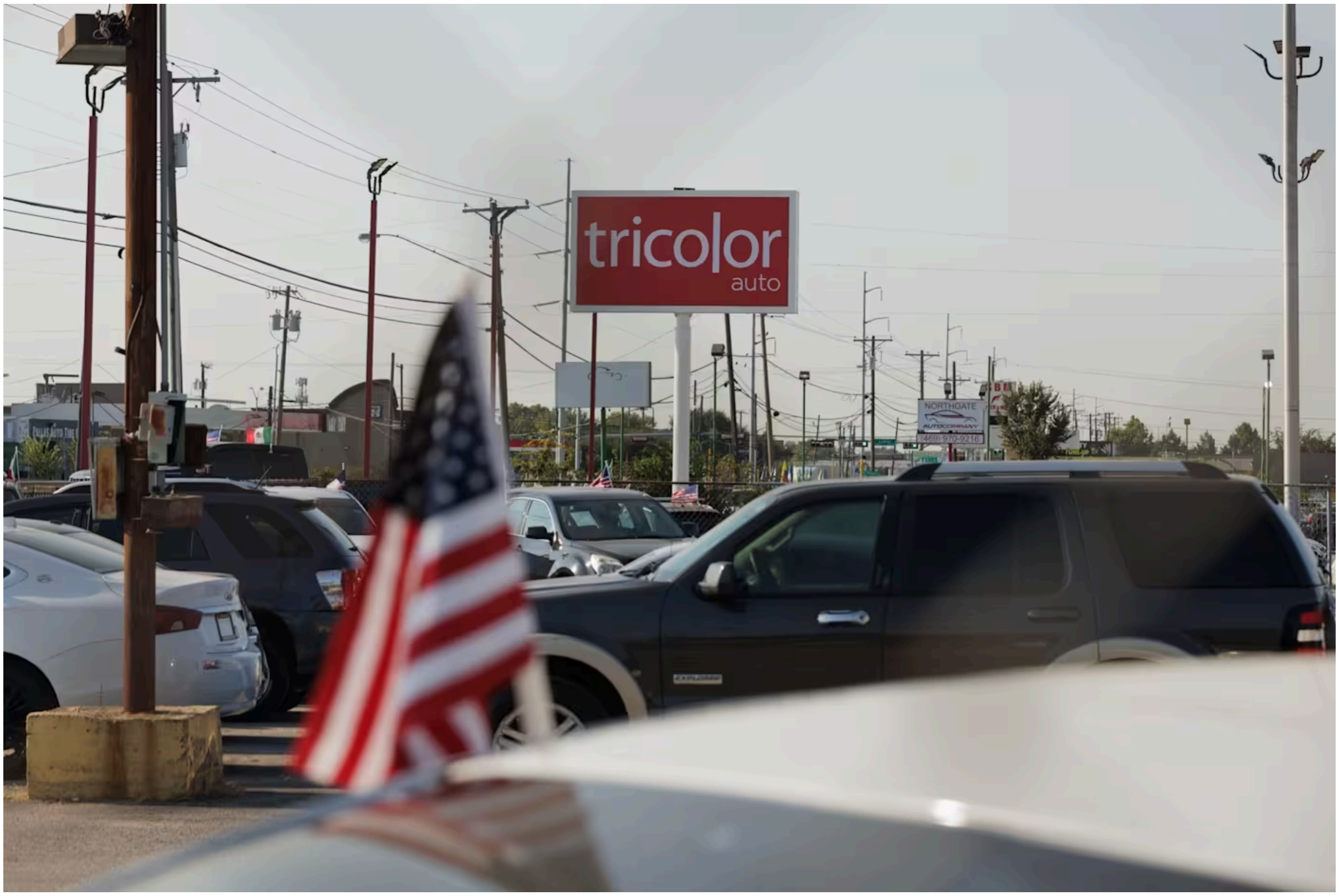
Smaller groups may face commercial pressure to assign more favourable scores, according to the BIS, which said the strategy could "lead to inflated assessments of creditworthiness" and "obscure the true risk of complex assets".

Insurers with links to private equity groups have been heavy users of private letter ratings. About a quarter of those insurers' investments relied on such ratings as of 2024, the BIS said.

The lack of transparency and liquidity of private loans makes them tricky to value accurately, increasing the risk of "fire sales which can amplify price movements during periods of economic stress", the BIS added.

The BIS, which advises the world's central banks, is the latest body to raise concerns over private credit ratings. Bank of England governor Andrew Bailey last week warned that recent troubles in the sector had set off "alarm bells," adding that the role of rating agencies deserved more scrutiny. Some Tricolor debt had received triple-A ratings months before the lender's collapse.

The National Association of Insurance Commissioners, a standard-setting body for US insurance regulators, earlier this year published a report finding that designations based on private ratings were on average 2.7 notches higher than its own assessments of creditworthiness. Ratings from small providers were on average 3 notches higher, it said, while those by larger groups were 1.9 notches higher.



Ratings on private credit investments have come under scrutiny after a rise in insolvencies and high-profile bankruptcies at car parts maker First Brands and auto lender Tricolor © Shelby Tauber/FT

The NAIC report, which prompted concerns that insurers could be shopping for more lenient ratings, was subsequently removed from the NAIC’s website.

An analysis by Absolute Strategy Research found that US life insurers would need an additional $30bn to $35bn of capital to maintain their regulatory buffers, if private letter ratings were moved in line with the NAIC’s designations.

Critics have also argued that private ratings are inherently less robust since they are not subjected to scrutiny by market participants.

“If market users are part of the mechanism for keeping rating agencies honest, it’s not working,” Ann Rutledge, a former senior Moody’s analyst and now chief executive of rating agency CreditSpectrum, told the Financial Times. “For the market to establish whether the ratings are reliable, they need to actually have access to the ratings.”

Reliance on private ratings is just one example of the broader financial stability risks building up in the life insurance sector, according to the BIS.

The BIS paper also describes insurers' broader push into riskier and more complex investments, rising liquidity risks for insurers with large exposures to the US dollar, and the potential for conflicts of interest at insurers with links to private equity firms.

Private equity's growing stake in insurance through direct acquisitions of insurers or management of their assets, may have raised "systemic vulnerabilities" in the sector, the BIS said.

Insurers affiliated with alternative investment managers invest about 24 per cent of their portfolios to private credit, as well as riskier and more complex assets, compared with 6 per cent at non-affiliated insurers, Fitch said in a note on Friday.

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Lee Harris

Private credit

The new crop of rating agencies behind the private credit boom

Regulators and bankers are sounding the alarm about an explosion in privately-rated securities

Lee Harris, **Euan Healy** and **Toby Nangle** in London

Published NOV 10 2025

Seventeen years after credit rating agencies' starring role in the financial crisis, "ratings shopping" is in focus again.

The first time around, large established agencies competing to grade a finite pool of debt gave out inflated stamps of approval to risky assets. Buyers of the assets were falsely left with the impression that the subprime credit they were holding was as safe as it got.

This time it is not the big three agencies of Moody's, S&P and Fitch that are in the line of fire, but second-tier shops that have shot to prominence by catering to the booming private credit market, which has grown to some $3tn in recent years.

Smaller, specialist providers such as Morningstar DBRS, Kroll Bond Rating Agency, HR Ratings and Egan-Jones have seized market share by offering private capital groups the chance to shop around.

Some of the world's biggest asset managers, including Blackstone and Apollo, are now among the most frequent users of ratings from firms beyond the big three.

But as sudden bankruptcies at First Brands and Tricolor have fuelled fears that cracks are emerging in the private credit universe, some financial heavyweights are warning that ratings arbitrage could pose risks to the wider financial system.

UBS chair Colm Kelleher warned last week that insurers shopping for better ratings on their private credit assets was creating a "looming systemic risk", while Bank of England governor Andrew Bailey said industry figures were sounding the alarm to him about "the role of the rating agencies".

"What you're seeing now is a massive growth in small rating agencies ticking the box for compliance of investment," Kelleher said.

Private letter ratings are not disclosed publicly, but can be used to determine capital requirements.

As private capital groups have boomed — and piled into the insurance industry, buying up life insurers — so has the demand for private letter ratings on everything from debt issued by individual portfolio companies to slices of asset-backed securities packaged into bonds destined for investment-grade buyers.

Insurers affiliated with the private capital groups use those investment-grade credit ratings to trim the capital they are required to have to back their long-term obligations to retirees.

As their needs have grown, the big private capital firms have turned to the smaller agencies as they seek a faster, more flexible service to suit their complex needs.

An explosion in the number of privately-rated securities

Privately rated securities held by US insurers

Big-3 rating agencies Specialised rating agencies

Number

8000

Private capital groups are defending the use of smaller agencies for the ratings — to a point.

Apollo's chief executive Marc Rowan insisted on the company's earnings call on Tuesday that Kelleher was "just wrong". DBRS and KBRA had developed specialist expertise in an important niche, he insisted, and they were "doing a good job competitively, with Moody's, S&P and Fitch close on their heels".

Rowan did distance Apollo's insurer, Athene, from one trailblazer that had thrust themselves to the fore of the market for ratings.

"Athene does not use Egan-Jones, let's start with that."

Egan-Jones, which first began issuing private ratings in 2014 and now has more than 22,000 transactions to its name, has come under scrutiny for the sheer volume of ratings it has been able to issue with relatively few analysts in very little time.

Egan-Jones has just 20 or so analysts and managed to issue more than 3,600 ratings last year alone, making it the most prolific grader of loans to individual businesses. Egan-Jones told the FT it had issued another 3,400 so far in 2025.

Some of the biggest names in private credit have sought to distance themselves from the firm. As well as Apollo, Blue Owl and BlackRock have singled Egan-Jones out as the only ratings company that they will not accept a valid rating from in some of their fund documentation.

Some ratings analysts said that they had recently been approached by issuers and loan sponsors who asked them to quote ratings on issuers that had been assessed by Egan-Jones.

As sponsors of middle-market borrowers found that they were taking "a lot of heat" from regulators over ratings from Egan-Jones, one person said, their agency had been approached with lists of businesses that had received BB ratings from HR or Egan-Jones.

Their agency typically produced ratings that were several notches lower, the person said, ranging from CCC+ to B-.

Egan-Jones said that "nearly 600 clients have trusted Egan-Jones to provide high quality ratings since 1995 and the data confirms the accuracy of our work. Our realised defaults on the private debt side are far lower than would be expected based on our ratings".

It added that "outside of surveillance and subscription ratings, which are narrow in scope and require less analyst time, our analysts have on average, more than 13 days to produce ratings for new deals".

Between them, the second-tier firms of Egan, HR, DBRS and KBRA issued more than 6,000 private letter ratings in 2023, about three-quarters of the total. The number of private letter ratings issued by Moody's, S&P and Fitch has stayed around 1,000 between 2020 and 2023.

Number of ratings

Count of long-term ratings outstanding at end of year

Egan-Jones KBRA HR Ratings DBRS AM Best

FINANCIAL TIMES Source: NRSRO form Exhibit 1 filing

Although DBRS and Egan-Jones have existed for decades, HR and KBRA have emerged far more recently. HR started in Mexico in 2007 providing public ratings to domestic borrowers before pushing into the US in 2012, while KBRA was set up in 2010 by corporate intelligence pioneer Jules Kroll as a post-crisis alternative to the big three.

The second-tier providers argue that they have thrived because they offer a more tailored approach and are willing to pick up business from complex investment structures or smaller issuers.

“What we’re offering is a very high-touch product,” said Michael Dimler of DBRS, who leads the agency’s private credit rating business for single-name borrowers. By specialising in smaller companies with a median annual revenue of about $300mn, Dimler’s team of analysts has almost doubled to nearly 30 in five years.

HR and Egan have both focused on loans to single borrowers rather than complex structured products such as collateralised loan obligations in which corporate loans of varying quality are bundled together into securities whose top tranches may then be awarded a triple A rating.

Part of their pitch is speed, pricing and a less “punitive” approach to rating smaller companies than the big players, HR told the Financial Times.

“We’re not going to be an Egan-Jones, time-wise, but we’re quicker than what we’re hearing about some of the others,” Gregory Root, business development executive director at HR Ratings, told the Financial Times.

HR declined to disclose its fees, but said that clients generally paid one pricing tier for ratings from the big three, and a second tier for KBRA, DBRS, HR and Egan.

Rather than single-name borrowers, both DBRS and KBRA have carved a niche in more complex structured products such as collateralised fund obligations (CFOs), which can package up ownership stakes in hundreds of private equity-owned companies.

These instruments have boomed as insurers and other credit investors have sought higher yields in private markets.

KBRA, which is now controlled by Boston-based private equity firm Parthenon Capital Partners, has “more than 70 analysts dedicated to its funds and private credit ratings”.

About half of its ratings are in structured finance, while the other half include corporates, financial institutions and governments.

KBRA “work in areas that are new or very complex,” said William Cox, chief rating officer, since “we were specifically created to serve investors with more in-depth research”. Those include commercial and residential mortgage-backed securities and asset-backed securities such as music royalties.

“DBRS and Kroll have most of the expertise right now in structured products, and they are doing a good job competitively with Moody’s, S&P and Fitch close on their heels,” Apollo’s Rowan said.

"I object to lumping in Kroll and DBRS with Egan," another asset management executive told the Financial Times. "They're now basically real ratings [agencies]."

But although these agencies have been hired by top-ranking private credit funds to rate private loans and structured products, concerns that initially centred on Egan-Jones have rippled across the group.

The ratio of analysts to ratings varies widely

Ratings per analyst

250

FINANCIAL TIMES

Source: NRSRO filings, SEC and FTAV calculations • Number of long-term ratings as declared in NRSRO filings and analysts declared to the SEC at year-end 2023. One issuer may have a number of ratings, and securitisations will typically each have many ratings.

At issue is whether the smaller rating agencies may award higher ratings than their larger, more prestigious peers, when rules tightened after the financial crisis require them to manage potential conflicts with their commercial interests.

Last month the Bank for International Settlements said ratings on private credit assets held by US insurers might have been inflated by smaller providers, who may face commercial pressure to assign more favourable scores.

It said the strategy could "lead to inflated assessments of creditworthiness" and "obscure the true risk of complex assets", and warned of the growing risk of "fire sales" during periods of financial turmoil.

When the National Association of Insurance Commissioners published a report last year that found smaller rating agencies had assigned more generous scores to private credit investments than larger ones did, KBRA criticised it as "statistically unsound". The NAIC ultimately withdrew it.

Egan-Jones said its "public ratings were similar to those of another major rating agency in 2024 — within 0.19 notches (weighted average) for the 1,170 issuers rated by both agencies".

"The other major rating agency had an equal or higher rating relative to Egan-Jones 60.7% of the time. The market generally considers one notch to be immaterial," it added.

If it were up to the rating agencies themselves, several people said, they would happily publish their private ratings, which they said they treated no differently than public ones.

"We do very, very normal due diligence. We do a very, very normal process of understanding the entity, going through financials, writing the full report," HR chief executive Pedro Latapi told the FT.

"What we can offer to the entities is a very normal look and feel, in terms of rating agency."

Additional reporting by Stefania Palma in Washington

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Egan-Jones Ratings Co

SEC raises questions over rating agency behind private credit boom

Egan-Jones has previously come under scrutiny for its ratings on thousands of private loans relied on by insurers

The SEC said an application by Egan-Jones to rate new classes of debt raised questions about the 'adequacy of [its] financial and managerial resources' to produce the ratings © Andrew Harrer/Bloomberg

Lee Harris and **Robert Smith** in London

Published MAR 24 2026

The US Securities and Exchange Commission has questioned whether Egan-Jones, the small credit rating provider that has come under fire for its grades on private credit loans, can "consistently produce credit ratings with integrity".

The regulator said an application by Egan-Jones to rate new classes of debt "raises questions about the adequacy of [Egan-Jones'] financial and managerial resources" to produce the ratings.

Questions over the adequacy of Egan-Jones' resources also stemmed from "other non-public information available to the commission", the SEC added.

Egan-Jones has come under scrutiny for its rapid growth and role in the booming market for private credit ratings. The family-led rating company had about 20 analysts as of late last year, and has issued thousands of ratings on private loans that are often relied on by insurance companies.

Egan-Jones said in response to the SEC's statement: "Egan-Jones has a superb record for rating debt."

"Unlike other credit rating firms paid by the issuers for their ratings, investors primarily pay for Egan-Jones' ratings, thereby assuring independence," it added.

In a statement following publication, Egan-Jones added that the SEC's order had been focused only on its application for two additional licences that would enable it to expand its business, "and does not affect its existing three licences or firm operations".

Egan-Jones is designated as a nationally recognised statistical rating organisation, which allows insurers to use its grades to calculate their regulatory capital charges.

Ratings on private assets held by insurers have increasingly come under scrutiny as some regulators and Wall Street executives have questioned whether companies could be shopping among different providers for higher ratings.

Apollo Global Management's chief executive Marc Rowan last year sought to distance his company from Egan-Jones, publicly telling investors that Athene, the private capital group's insurance affiliate, "does not use" their credit ratings.

Bermuda's financial watchdog has also become warier. In January, it issued guidance that removed Egan-Jones from the list of recognised credit rating providers in the country, a hub for the world's insurance reserves and retirement savings.

In 2013, the SEC revoked the ability of Egan-Jones to grade asset-backed securities and government debt, barring it from rating those asset classes for 18 months.

At the time, Egan-Jones and its president Sean Egan agreed to settle charges that they had made material misstatements to the commission. The SEC at the time found that Egan-Jones had claimed it had been continuously issuing credit ratings in asset-backed securities and government securities since 1995.

In response to criticism, smaller rating shops have pointed out that the so-called “Big Three” rating providers — Moody’s, S&P and Fitch — operate in a highly concentrated market.

In a statement on Monday, Egan-Jones pointed to the recent bankruptcies of Tricolor and First Brands Group, claiming that “legacy” groups had “missed the mark” on these bankruptcies.

The company also suggested that the big rating agencies had contributed to the global financial crisis in 2008. “Congress concluded that the legacy rating firms were key enablers of the capital markets meltdown and instructed the SEC to increase competition. Unfortunately, the markets continue to be dominated by the same firms,” it said.

This article has been amended to clarify the wording of the SEC order.

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FSB warns on private credit vulnerabilities

6 May 2026

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- *The FSB report highlights that private credit brings benefits but also vulnerabilities, including complex interlinkages with banks, borrower credit quality concerns, and valuation opacity.*
- *Private credit has grown rapidly and remains untested in a prolonged economic downturn, with high leverage and concentration in specific sectors potentially amplifying stress.*
- *The FSB encourages authorities to close data gaps, harmonise definitions to enhance monitoring, and deepen analysis of financial interconnections and liquidity issues, while sharing supervisory insights.*

The Financial Stability Board (FSB) today published a report on financial stability vulnerabilities in private credit. This activity has grown rapidly, to an estimated $1.5-2.0 trillion in assets at end-2024 and is heavily concentrated in a few jurisdictions. Notwithstanding the benefits private credit brings, in the form of tailored finance for companies and diversification for investors, it also embeds several vulnerabilities.

The Financial Stability Board (FSB) today published a report on financial stability vulnerabilities in private credit. This activity has grown rapidly, to an estimated $1.5-2.0 trillion in assets at end-2024 and is heavily concentrated in a few jurisdictions. Notwithstanding the benefits private credit brings, in the form of tailored finance for companies and diversification for investors, it also embeds several vulnerabilities.

Interlinkages with banks: The private credit ecosystem is characterised by deepening interconnections between asset managers, banks, insurers and private equity firms. Banks and private credit funds are connected through financing arrangements and strategic partnerships. Across FSB members, the available data captures direct exposures of around $220 billion of drawn and undrawn bank credit lines to private credit funds, while some commercial estimates range from $270-$500 billion. This range highlights some of the data challenges in private credit. However, there are also potential vulnerabilities from a range of other indirect exposures including through banks providing revolving credit facilities to companies that are simultaneously borrowing from private credit funds and the growing use of synthetic risk transfers.

Borrower credit risks and valuation practices: The report warns that valuation opacity and reliance on private credit ratings can amplify strains in stress. Private credit borrowers typically lack public ratings, creating transparency challenges for market-wide monitoring. Available evidence indicates that borrowers typically have lower credit quality and higher leverage than borrowers observed in comparable public markets. There are some signs of borrower stress as usage of payment-in-kind arrangements has increased and some increases in default rates, albeit from low levels.. The growing use of private ratings, sometimes from lesser-known providers, to facilitate investment by rating-reliant investors (including insurers) also warrants monitoring. Private credit lending is concentrated in a few sectors, notably technology, healthcare, and services, complicating surveillance and increasing the risk that a firm- or sector-specific shock turns into broader market stress.

Concentration, leverage and liquidity issues: Concentration arises from significant exposure to sectors such as technology, healthcare, and services. Leverage is reflected in the presence of opaque, multi-layered structures. Liquidity issues stem from the growing popularity of funds offering redemption options to investors, which may heighten the procyclicality of private credit.

Data gaps: The report warns that data gaps hinder effective oversight of the sector. Differences in definitions across jurisdictions and limited fund- and loan-level information make it hard to assess exposures and potential transmission channels. The report proposes a core set of comparable metrics for authorities to track market size and growth, links with banks and insurers, leverage, liquidity features, concentration, cross-border activity, and borrower credit quality.

The FSB encourages authorities to:

- address data challenges, including those related to the lack of granular fund and loan-level data and the absence of harmonised global definitions.
- Deepen analysis of interlinkages of private credit with private equity and insurers and of liquidity mismatches in private credit funds.
- Share supervisory approaches on risk management and governance for banks and nonbanks active in private credit, including aggregation of exposures, valuation practices, and the use of private ratings.

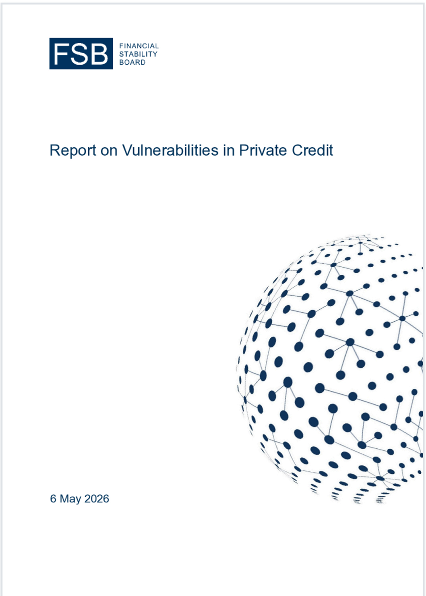
Notes to editors

This report forms part of the FSB's work programme to enhance resilience in nonbank financial intermediation (NBFI). Further details on this can be found in its latest progress report.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Andrew Bailey, Governor of the Bank of England. The FSB Secretariat is located in Basel, Switzerland and hosted by the Bank for International Settlements.

Publication


FSB FINANCIAL STABILITY BOARD

Report on Vulnerabilities in Private Credit

6 May 2026

Report on Vulnerabilities in Private Credit

6 May 2026

Private credit has expanded rapidly to an estimated $1.5–2 trillion in assets, supporting financing for mid-sized companies but creating potential financial stability risks

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European regulators question private ratings' future (9fin)

18:26 15 May 2026 • 9 min read

Ryan Hesketh and Francesca Veronesi

Private ratings, credit opinions on borrowers or instruments that are not publicly disclosed, have become a fixture of private credit deal infrastructure. But as greater scrutiny of the opaque private credit intensifies, European regulators are questioning their benefits.

Lenders use private ratings to attract capital from investors. Insurers use them to satisfy internal governance requirements where no public rating exists. They're private, meaning they may be communicated to a select group but won't be widely publicly available.

The European Union's regulation on ratings - the EU Credit Rating Agencies Regulation - explicitly excludes private credit ratings from its scope. The greater adoption of private ratings has led **European Securities and Markets Authority** (ESMA), the EU's financial markets regulator and supervisor, to call upon stakeholders to disclose views on the practice.

ESMA intends to assess their benefits compared to public ratings and whether limited transparency may affect diligence and market discipline. Stakeholders have until the end of May to send evidence to ESMA.

At least one rating agency is ready to embrace private ratings and their public equivalents falling in the same regulatory box.

"We would encourage and fully welcome full regulatory treatment and scrutiny of all of our private/unpublished ratings because not doing so is incongruent with the growth in private markets, and in their expanding use of investment grade rated credit products," said KBRA's chief rating officer William Cox.

Across the Channel

There are no public plans to do the same in the UK. However, lenders have left meetings with the UK's **Prudential Regulation Authority** and **Financial Conduct Authority** over the past two months believing that regulators are souring on private ratings, and the time may be coming when they are no longer usable, according to *9fin* sources.

Over the past two months, multiple firms across the UK private credit market have had routine supervisory discussions with the PRA and FCA in which regulators raised private ratings as a point of concern, according to *9fin* sources. Lenders took away various messages, all pointing to a negative view on private ratings. Regulators urged caution on over-reliance, expressed unease about opacity, and a noted preference for public disclosure, according to the sources.

"We left our regular meeting with the impression that they were cautioning us on private ratings and hinting that we might have to publish ratings in the future," said one UK direct lender.

A second direct lender said the regulator went further, expressing specific concerns about the reliability of ratings issued by smaller agencies.

A third said the regulator "expressed dissatisfaction with smaller rating agencies' reliability and suggested that more published ratings would be better for the industry."

But it's not just private credit firms who've emerged from conversations with UK regulators jittery about private ratings. A UK insurer told *9fin* that the PRA had asked directly for its opinion on private ratings and made clear it would prefer more of them to be public. "We left thinking that changes might be coming," they said. A second insurer described a near-identical experience.

Officially, the FCA has taken no concrete steps in this direction. An FCA spokesperson said: "This doesn't reflect engagement we've had with firms."

The PRA declined to comment on this story, saying it doesn't comment on supervisory discussions.

Rules as written

Speaking at the Westminster and City Annual Bulk Annuities Conference on 29 April 2026, Gareth Truran, executive director of insurance supervision at the **Bank of England**, set out the regulator's position on private ratings. He said that where no public rating is available, firms may use internal ratings, but only where those meet PRA's rules on governance, benchmarking and validation.

"Private ratings may inform insurers' internal ratings or validation processes, but our rules do not allow firms to use them as a substitute," Truran warned, telling firms that when it came to private ratings they should "not solely or mechanistically rely on them."

According to current guidance, firms must demonstrate that their internal ratings fall within the range that a UK recognised credit rating agency could have reasonably issued, consistent with the PRA's prudent person principle.

So, for now, the regulators are tolerant of private ratings, as long as they're used in the right context. That is, in public, at least. Behind closed doors, in their regular supervisory discussions, *9fin* sources agreed that the temperature was changing.

What lenders expect ranges from a vague "tightening" on restrictions around private ratings, to an end of their use altogether. Tighter rules could include more scrutiny on how the ratings are obtained, rules on what counts as a public or private rating, and what methodologies can be used. Right now, it's not clear if any changes will be made and if so, what they will be, according to *9fin* sources.

Even so, how the industry would adapt to a world with fewer or with no private ratings is a thorny question that some are already considering.

Ripple effects

It's hard to get a sense of how many private credit loans are publicly versus privately rated. Even the large ratings agencies don't have that kind of data, *9fin* sources said.

One UK lender estimated that 60% of their book could be considered privately rated, whereas another put the figure as high as 90%. The discrepancy is likely due to differences in firm behaviour, as well as inconsistent definitions of what constitutes a private versus a public rating.

If the rules on private ratings did become stricter, the degree of impact would depend on how strict they became. The regulators could restrict uses to certain cases, force the publication of private ratings methodology, or ban their use altogether. Right now, lenders simply don't know what to expect.

If private ratings were restricted in some way, the initial headache for lenders would be the work required to replace private ratings with internal ratings, or the implied cost if they bit the bullet and hired a public rating agency.

"Re-rating a high proportion of your investments is no joke," one of the direct lenders complained, "my worry is that some of the smaller firms that don't have internal ratings teams couldn't absorb the cost."

Even a small number of public ratings can be expensive, the lender continued, which is one reason why they aren't currently beloved by fund managers.

Another, less comfortable, reason is that private ratings may not represent the reality of an underlying credit's quality.

Harsher critics

"These [private] ratings are often very generous, and can be arranged in a hand-in-glove way with smaller ratings agencies," one of the UK insurers said. "We never assume they're reliable, and we've been proven right more than once."

Since private ratings and their methodologies are, by their very nature, private, it's impossible to know how well they capture the strength of the credit that they're based on. That is why the regulators insist they are not a substitute for public ratings.

If private assessments were heavily reduced or banned suddenly, it could prompt public rerating of loans that might not end up meeting the standard that their previous ratings suggested. Not only could this be embarrassing for firms, it could cause LPs to withdraw capital or even initiate court proceedings.

Such a scenario would only happen if the regulators made an unanticipated and abrupt change to the rules without giving firms time to adjust. This is not the way they operate, according to the lenders. More likely, the regulators would indicate to the industry that changes were coming, then give them time to communicate with their investors and find a workout solution that avoided wild swings in the market.

"There's no way they'd go for the nuclear option, they want stability above everything else," one UK insurer said.

Firms' most simple response to tighter rules on private ratings might be to simply publish their ratings. That wouldn't cost anything and could be accomplished with a few clicks. For some firms, it would be as easy as moving the ratings from an inaccessible part of their website, to an accessible one, according to one of the lenders.

Publishing their hitherto private ratings is, however, another "nightmare scenario" for private credit firms, according to the insurer. This is partly because publishing ratings would both expose them to scrutiny to which they might not stand up, but also because it could reveal lenders' internal ratings methodologies. These processes, which firms consider proprietary, are often thought of as part of the secret sauce that gives them an edge of their competition, according to one of the lenders.

"We'd want to avoid this at all costs," one lender concluded, "even if we had to let some of our loans become unrated."

For insurers themselves, the stakes are as high as for private credit firms. Under Solvency II, the internal ratings framework underpins how firms calculate the matching adjustment benefit on long-term asset portfolios. Ratings that fall outside PRA expectations could force capital recalculations across significant portions of life insurers' books.

Ratings agencies wouldn't be immune from the fallout either, if rules tighten. The bigger ratings agencies would be fine, the insurer said, as the bulk of their business is in public ratings and their methodologies are widely published. But many smaller agencies depend on providing non-public opinions on private credit assets with limited compliance obligations and minimal methodological transparency.

"I believe this is a swipe at the smaller ratings agencies," the insurer added, "I get the impression that the regulators are fed up with them and are dealing with them by cutting off their air supply."

Hints and hopes

The crucial point is that none of this amounts to formal moves by the regulators, at least not yet. The PRA and FCA do not make policy in supervisory meetings. Instead, they use supervisory conversations to flag concerns and signal direction without committing to a timeline or a specific outcome.

"It's the equivalent of leaving open wedding magazines around the house for your partner," one of the lenders said, "you want them to get the hint before you have to do anything drastic."

Firms told *9fin* that they are expected to pick up the signal and begin adjusting. A formal consultation, if it comes, would be the public confirmation of a direction several firms in the market believe has already been set.

"The regulator operates through 'hints and hopes' quite often," said one UK pension fund manager, whose own discussions with the PRA in recent weeks touched on non-published ratings alongside other prudential risks. "You have to learn to read them." They also said the regulator hinted that reliance on private ratings should be reduced, and that publication may be required in the future.

Tightening focus

Regulators have slowly been building pressure on private ratings for months now. In October 2025, the **International Monetary Fund**'s Global Financial Stability Report flagged the risk that private ratings could misclassify below-investment-grade instruments into the investment-grade bucket.

In December 2025, the BoE began examining the role of ratings firms as part of its system-wide exploratory scenario exercise covering private markets. In the same month, Bloomberg reported that the FSB had raised high-level concerns about ratings practices in private credit.

Then came the **Financial Stability Board**'s report on private credit vulnerabilities in May 2026. It warned that "valuation opacity and reliance on private credit ratings can amplify strains in stress." It flagged that private ratings are sometimes provided by smaller, lesser-known agencies and may be used specifically to attract insurers who rely on ratings for regulatory capital purposes. The FSB also identified ratings shopping — borrowers seeking the most favourable grade from agencies competing for market share — as a live concern.

The FCA is already making moves. On 13 May 2026, the Financial Times reported that the UK FCA has been in discussions to tighten private credit reporting requirements in the name of transparency. The regulator plans compulsory disclosure rules for any private credit operators in the UK, tightening scrutiny on the market and setting the tone for regulator's desire for greater overview on what makes private credit tick.

As it stands, in both the UK and the EU, private ratings are still a valid tool in private credit. But lenders are beginning to feel that their days are numbered, and many are beginning to imagine what a world without them could look like.

For some ratings agencies, the pivot might not be a watershed moment.

At KBRA, all processes and procedures, methodologies, rating committee composition, codes of conduct, surveillance obligations, rating reports, and regulatory disclosure, are identical for public ratings and unpublished ratings, said Cox.

"The only thing that is different is how each respective rating type is distributed: to our public website, or to a private transaction-specific data room. Private ratings are also included in all our default and transition studies and all other relevant regulators receive and regulate both," he added.

The regulatory blindspot in the EU has also given permission for creative interpretations of what publishing means.

"Ignoring their existence in the market has led to some unhealthy distortions and unintended consequences, such as the use of the term "published" for ratings that are posted to websites that are not publicly accessible," Cox added.