

Call for evidence

**on ratings data periodic reporting requirements for CRAs according to Article 21 (3)(e) of
the Draft Amended CRA Regulation**

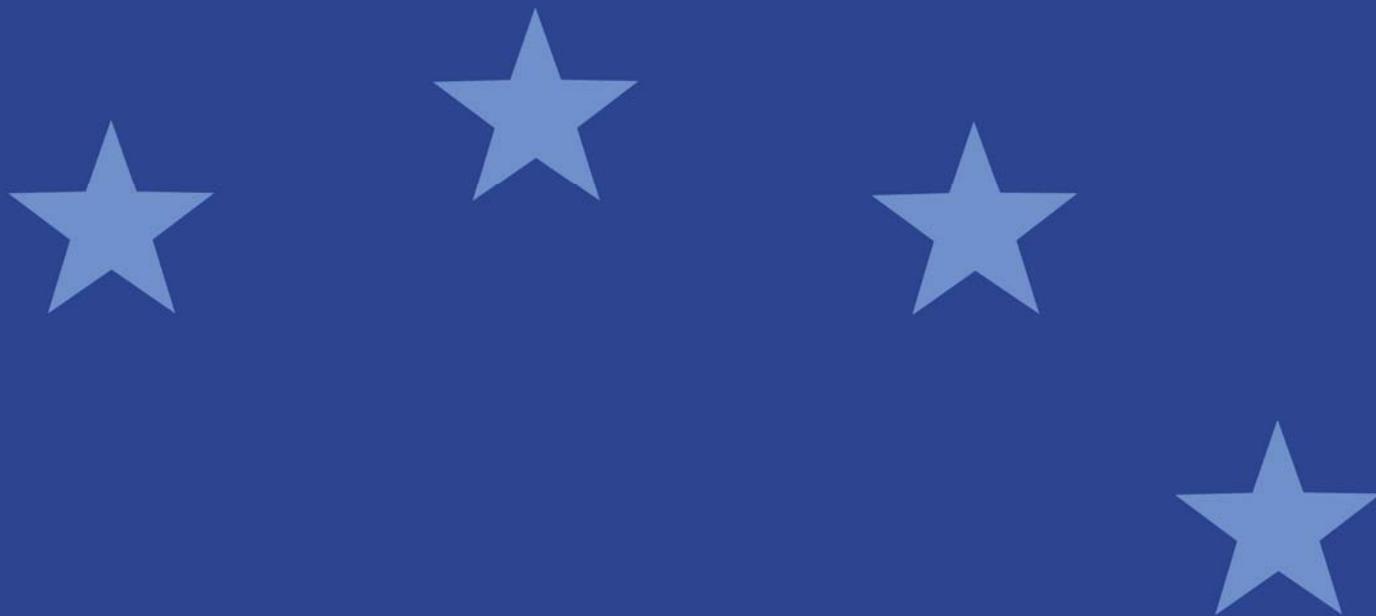


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I. Executive Summary

In the light of the proposal for amending Regulation (EC) No 1060/2009 on credit rating agencies¹, ESMA has started the process of drafting regulatory technical standards (RTS), to be endorsed by the European Commission in accordance with Article 10 of the ESMA Regulation², concerning the content and format of the ratings data periodic reporting to be requested from credit rating agencies (CRAs) for the purposes of ongoing supervision.

The aim of this call for evidence is to collect data and information for a preliminary assessment of the above-mentioned requirements from CRAs, and possibly other interested parties. This evidence will be considered in the preparation of a public consultation paper (including a cost-benefit analysis) on the subject concerned.

ESMA invites responses to this call for evidence by **20 June 2011**. Contributions should be submitted online via ESMA's website under the section "ESMA Work" heading "Consultation" at www.esma.europa.eu.

All contributions received will be published following the close of the call for evidence period, unless the respondent requests their submission to be confidential.

II Background

1. On 30 August 2010, CESR issued Guidance³ on the enforcement practices and activities to be conducted under Article 21(3)(a) of the EU Regulation No 1060/2009 on credit rating agencies. Among operational data to be provided by CRAs, the Guidance also included monthly ratings data (lists of new issues, rating transitions and reviews, withdrawals, number of issuers/transactions rated/monitored, all information specified by type of credit rating/geography/sector).
2. The amended EU Regulation No 1060/2009 approved in December 2010, which attributes to ESMA the responsibility of the supervision of CRAs from 1 July 2011, provides that "*By - seven months after the entry into force of this Regulation-, ESMA shall submit draft regulatory technical standards for endorsement by the Commission, in accordance with Article 10 of EU Regulation No. 1095/2010 (ESMA) on: ...e) the content and format of ratings data periodical reporting to be requested from the credit rating agencies for ongoing supervision by ESMA*".

ESMA is considering two different options regarding the content and format of the ratings data that registered or certified CRAs will have to send to ESMA on a monthly basis; these are:

- a) *analytical data concerning specific rating actions; or*
 - b) *aggregated data regarding ratings.*
3. According to Article 10(1) of the ESMA Regulation, the RTS shall be technical, shall not imply strategic decisions or policy choices and their content shall be delimited by the legislative acts on which they are

¹ Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

² 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.

³ CESR's Guidance on the enforcement practices and activities to be conducted under Article 21.3(a) of the Regulation (Ref. 10-944) , available at <http://www.esma.europa.eu/popup2.php?id=7117>.



based. ESMA is required to conduct an open public consultation on the draft RTS and to analyse the potential related costs and benefits.

4. ESMA is seeking input through this call for evidence from market participants on aspects related to the costs, benefits and the technical issues that CRAs may expect to face in complying with the reporting requirements concerning ratings data mentioned above. The responses received will help inform ESMA's cost-benefit analysis and public consultation paper.
5. Responses to this Call for Evidence should be sent to ESMA by 20 June 2011

III .Questions

6. When answering the following questions, please ensure that any reference to costs is quantified (in Euros) where possible.
7. Please indicate (i) the name of your organisation; (ii) your annual revenues (from the most recent annual report); (iii) the nature of your business (e.g. CRA, association, etc); and (iv) your areas of specialisation (e.g. corporate, structured finance, financial institutions, insurance).

IV Option for requesting analytical ratings data on a monthly basis

8. The list below provides a very preliminary indication of the data and information which could be required from registered or certified CRAs for each rating action taken (new issues, rating reviews and updating, withdrawals) in respect of ratings directly issued or endorsed from other third country CRAs.
9. The following information may be required with regard to each rating action taken by CRAs during the one month reporting period:
 - Identifier of relevant rating;
 - Date and hour of the publication of the rating action;
 - Issuer/instrument or transaction to which the rating action refers;
 - Financial instruments to which the rating action refers (if applicable)⁴;
 - ISIN code of the financial instruments (if applicable);
 - Level of the rating (e.g. AAA, A+, etc.) after the rating action;
 - Type of rating (i.e. corporate, structured finance, sovereign and public finance);
 - Time horizon of the rating (long-term, short-term, etc.);
 - Indication of solicited vs. unsolicited rating;
 - Period of validity of the rating (if applicable);
 - Type of rating action (i.e. new rating, upgrading, downgrading, rating outlook positive/negative, rating review/rating watch, withdrawal of rating); the expiry of the validity of the rating should be considered as a rating action subject to reporting.;
 - Date and hour of the adoption of the rating action (when different from the date and hour of its publication);

⁴ In case of an issuer rating, this information should not be provided.

- Date and hour of the communication of the rating action to the rated entity (before the publication), as provided by the Regulation;
- Subsidiary of the CRA which issues the rating action and persons responsible of the rating action.

Moreover, the first reporting should also indicate the previous level of rating for a specific issuer/financial instrument, as well as the date of issuance of this previous rating.

10. The reasons ESMA is considering requesting periodical analytical data about specific rating actions is that a continuous flow of micro-data on rating actions could assist in implementing an effective and efficient supervision of CRAs. If, on the basis of this information, some critical issues are identified with regard to a specific rating action, implying a possible breach of the Regulation, ESMA can make more detailed requests to the concerned CRA in order to investigate further.
11. Information reported to ESMA under this provision will be kept confidential and shared only among competent supervisors. None of the information will be published by ESMA. The data will be submitted to ESMA in a XML format.

Questions for CRAs

Direct costs

Q1: Do you think that the amount of information to be provided to ESMA under this option is manageable for your internal organisation? How much data (i.e. number of rating actions) would you estimate would be provided each month to ESMA, in order to fulfill the above proposal?

Q2: Would you envisage the need to implement significant changes to your organisation in order to comply with the reporting requirements described above? Please provide some indication of the specific costs, one-off and ongoing, related to these changes.

Q3: In indicating these costs, please distinguish between: (i) staff costs (e.g. hiring, training); (ii) legal costs; (iii) IT costs (e.g. development, systems); (iv) other costs – please specify. For each of the above categories, please indicate the amount of one-off costs and the amount of on-going costs.

Q4: Regarding each transmission of the data required above, would you expect any difference in the resources spent to collect the information with respect to the process needed to collect the data to be sent to the CEREP? Please explain the reasons of this difference, if any. Please provide an estimate of these additional marginal costs or savings.

Q5: Please provide an estimate of the human and/or technical resources (for instance in terms of man-hours) needed to collect and process the information necessary to comply with the reporting requirements mentioned above in paragraph 9. Please distinguish between one-off and on-going resources, as well as provide an overview of the procedures envisaged to accomplish this.

Q6: Would your current IT systems be able to deliver the above information? If so, please provide a general description of the functioning and structure of the IT systems used by your company to collect and deliver the information requested in order to comply with the reporting requirements specified above.

Q7: In your view is there any redundant item in the list in paragraph 9 which could be dropped in order to simplify the collection and reporting of information, while not impacting the effectiveness of supervision? Is there any missing information? Please provide the relevant information, and reasons.

Benefits

Q8. Please state whether you consider there could be benefits for your organisation of the analytical reporting requirements described above, for example from:

- a. possible reputational improvements directly or indirectly linked to enhancement of the effectiveness of supervision;
- b. possible reputational improvements linked to stronger incentives to increase the accountability of credit rating methodologies and the quality of credit ratings;
- c. less burdensome action from the supervisory side as a consequence of its potential to operate more timely and effectively (i.e. avoid duplication of information requests, etc.);
- d. in general, lower legal and operational risk due to improvements in supervisory monitoring of rating activities.

Please explain whether you agree with these benefits and, where possible, quantify them or provide examples.

Questions for all Stakeholders - Costs and Benefits

Q9: In your view, is there any redundant or missing information in the list in paragraph 9 which should be included or omitted in order to improve supervision?

Q10: Please indicate the costs and benefits that you envisage from the analytical reporting requirements described above, for example regarding:

- a. any specific reasons for an increase in the costs or a reduction in the quality or availability of the credit ratings as a consequence of the reporting requirements mentioned above;
- b. any expected improvement in the quality of the credit ratings or credit rating processes and methodologies from CRAs in response to more effective supervisory activity;
- c. any possible advantages linked to the increased potential for supervisory action to identify and address critical issues on specific ratings.

Please explain these costs and benefits, and where possible quantify them or provide examples.

V Option of requesting aggregate ratings data on a monthly basis

12. This option would entail requesting ratings data in aggregate and summarised form to allow for an analysis at a higher level⁵. The following information could be provided:

- a. General data. For each type of rating (corporate ratings divided by sector, structured finance instruments divided by asset type, public/sovereign ratings divided by sovereign, sub-sovereign, supranationals and public entities), the following aggregated data, with breakdown by geographic location of the relevant issuer or instrument/transaction:
 - Number of total outstanding ratings at the end of each reporting period;
 - Number of new ratings;
 - Number of ratings withdrawn;
 - Number of ratings downgrades;
 - Number of ratings upgrades;

⁵ It would still be possible for ESMA to request detailed information on ratings data, where necessary, pursuant to Article 23 of the Regulation.



- Number of ratings with deteriorated outlook/watch status;
 - Number of ratings with improved outlook/watch status.
- b. Number of ratings transitions: number of ratings which moved from one category (e.g. AA, BBB, etc.) to another category, including breakdown by rating type and geographical location of the issuer or instrument/transaction.
13. With regard to this option, requesting aggregate monthly ratings data may allow supervisors to draw meaningful conclusions by having a good understanding of the rating activities of a specific CRA over the past reporting period, in order to assess trends and identify potential issues. Further ratings specific data could then be requested in a targeted manner, if necessary.
14. Information reported to ESMA under this provision will be kept confidential and shared only among competent supervisors. None of the information will be published by ESMA. The data will be submitted to ESMA in a XML format.

Questions for CRAs

Direct costs

Q11: Do you think that the amount of aggregate information to be provided to ESMA on a monthly basis appears to be manageable for your internal organisational procedure?

Q12: Do you think that you will need to promote and implement an affordable amendment in your internal procedures to set up a function which can aggregate, collect and send the above information to ESMA? Please provide some indication of the specific costs, one-off and ongoing, related to these changes.

Q13: In indicating these costs, please distinguish between: (i) staff costs (e.g. hiring, training); (ii) legal costs; (iii) IT costs (e.g. development, systems); (iv) other costs – please specify. For each of the above categories, please indicate the amount of one-off cost and the amount of on-going costs.

Q14. Can you provide an estimate of the technical and/or human resources (for instance in terms of man-hours) needed to collect and process the information necessary to comply with the reporting requirements mentioned above in paragraph 12? Please distinguish between one-off and on-going efforts and provide an overview of the procedures envisaged thereof.

Q15. Please provide a general description of the major issues linked to the collection and delivery of the relevant information, having regard to the functioning and structure of the IT systems adopted by your company.

Q16: In your view is there any redundant item in the list in paragraph 12 which could be dropped in order to simplify the collection and reporting of information, while keeping an effective level of supervision? Is there any missing information? Please provide reasons.

Benefits

Q17. Please state whether you consider there could be benefits for your organisation from the aggregate ratings data reporting requirements described above, for example from:

- a. possible reputational improvements directly or indirectly linked to enhancement of the effectiveness of supervision;
- b. possible reputational improvements linked to stronger incentives to increase the accountability of credit rating methodologies and the quality of credit ratings;
- c. retaining direct monitoring and control of the elaborations on credit ratings data that are filed with ESMA to be processed for supervisory purposes;

- d. providing more meaningful information (identifying trends and changes to market credit conditions) to be processed for supervisory purposes allowing more targeted supervision;
- e. general improvements in terms of lower reputational, operational and legal risk;

Please explain whether you agree with these benefits and, where possible, quantify them or provide examples.

Questions for all Stakeholders - Costs and Benefits

Q18: In your view, does the list in paragraph 12 above include any redundant information or is it missing any relevant information? Please provide the relevant information, and reasons.

Q19: Please indicate the costs and benefits that you envisage from the content and frequency of the aggregate ratings data reporting described above, for example regarding:

- a. any specific reasons for an increase in the costs or a reduction in the quality or availability of the credit ratings as a consequence of the reporting requirements mentioned above;
- b. simplification and enhanced efficiency (possible more focused use of resources) of supervisory activity, driven by assessment of trends and identification of possible gaps or flaws in the rating sector;
- c. higher efficiency in the use of supervisory resources – i.e. no need to analyse a large amount of data, with the possibility that any additional information may be requested when necessary from CRAs.

Please explain these costs and benefits, and where possible quantify them or provide examples.