



European Securities and
Markets Authority

Guidelines and Recommendations

Guidelines on periodic information to be submitted to ESMA by Credit Rating Agencies





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Acronyms used

CRA Regulation	Regulation (EC) No 1060/2009 of the European Parliament and of the Council (as last amended by Regulation (EU) No 462/2013).
CRA	Credit Rating Agency
ESMA	European Securities and Markets Authority
HR	Human Resources
IA	Internal Audit





1 Scope

Who?

1. These Guidelines apply to credit rating agencies (CRAs) registered in the EU. These guidelines do not apply to certified CRAs.

When?

2. The guidelines will become effective two months after their publication on ESMA's website in all the official languages of the EU.

2 Definitions

3. ESMA Regulation: 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 Purpose of Guidelines

4. The Guidelines set out the information that should be submitted by CRAs to enable ESMA's ongoing supervision of CRAs on a consistent basis. The Guidelines also clarify ESMA's expectations of the information that should be submitted to ESMA for the calculation of supervisory fees and CRAs market share.

4 Compliance and reporting obligations

5. This document contains guidelines issued under Article 16 of the ESMA Regulation. In accordance with Article 16(3) of the ESMA Regulation, financial market participants must make every effort to comply with the guidelines and recommendations.

5 Information to be contained in the periodic submissions

6. This Section sets out the information that CRAs should submit to ESMA on a quarterly, semi-annual and annual basis as part of their periodic submissions. Information should be submitted within one month following the end of the quarter concerned.

Period	Submission deadline
1Q 20xx (up to 31 March 20xx)	30 April 20xx
2Q 20xx (up to 30 June 20xx)	31 July 20xx
3Q 20xx (up to 30 September 20xx)	31 October 20xx
4Q 20xx (up to 31 December 20xx)	31 January 20x(x+1)

7. Please note that, where potential infringements of the CRA Regulation that pose a risk to the integrity and objectivity of existing credit ratings have been identified (including possible fraudulent or irregular activity (e.g. employee or manager misconduct)), CRAs will wish to consider informing ESMA of them promptly. CRAs will be aware that a failure to do so would, in the event of an infringement being found, prevent the firm from relying on the mitigating factor set out in Point 3 of Section II of Annex IV of the CRA Regulation (*“If the credit rating agency has brought quickly, effectively and completely the infringement to ESMA’s attention, a coefficient of 0,4 shall apply.”*).
8. ESMA does not intend that a CRA will waive legal privilege in submitting the periodic information included in these guidelines.

A. Quarterly information submissions

5.1 Financial revenues and costs (per type of credit rating and on individual and consolidated basis)

9. ESMA should receive information on quarterly revenues per i) type of credit rating and ii) costs.
10. Quarterly revenues should be split across the following types of credit ratings: Corporate Non Financials; Corporate Financials; Sovereign/Public Finance; Structured Finance; Covered Bonds.
11. Quarterly costs should show operational and total costs on a separate basis. Operational costs should be an approximation of earnings before interest and tax charges. Figures should be presented as quarter-on-quarter revenues and costs (rather than year-on-year).
12. CRAs exempt from an annual supervisory fee should submit this information semi-annually, rather than quarterly.

5.2 Staff turnover, vacancies and key promotions

13. Quarterly turnover of Senior Management (including senior IT management), Lead Analysts and Analysts should be provided. CRAs exempt from an annual supervisory fee should submit this information semi-annually, rather than quarterly.



5.3 FTE headcount

14. In addition to staff turnover data, ESMA should receive a quarterly report of the total number of staff working at a CRA expressed in terms of Full Time Employees. CRAs exempt from the annual supervisory fee should provide this information semi-annually, rather than quarterly.

5.4 Internal complaints submitted to the Compliance Department

15. CRAs should submit to ESMA on receipt of a complaint within the scope of the Regulation:

- A description of the content of the complaint;
- The follow-up actions undertaken by the CRA;
- Information on whether an internal investigation was opened as a consequence, including whether the investigation is ongoing or closed at the date of reporting; where the investigation has been closed, a copy of any consequent report made in respect of the investigation.

B. Semi-annual information submissions

5.5 Board minutes, independent non-executive directors' opinions and reports submitted to the Board

16. CRAs should submit on a semi-annual basis:

- The minutes of their board meetings;
- A copy of documents sent to management and supervisory board members in advance of their respective board meetings, as well as additional documents discussed in the meeting (for instance, reports made by Compliance, Internal Audit Risk, internal review reports function, information security and risk function);
- Where an independent non-executive director's (INED) opinion is provided in a standalone document, CRAs should submit in the semi-annual submission any opinions presented by a CRA's INED(s) pursuant to point 2 of Section A of Annex I of CRA Regulation and all reports (including follow-up reports) issued by an independent director.

5.6 Court, arbitration and other dispute resolution proceedings

17. ESMA should receive semi-annually a brief description of, and updated information on pending and current court proceedings, arbitration proceedings and any form of binding dispute resolution proceedings which are/were in being at any point in time during the reporting period, and which may adversely impact the continuity or quality of ratings and/or materially impact the financial position of a CRA. This description should include a



summary of the proceedings and of the potential outcome of the proceedings in terms of liability.

5.7 Potential and actual cases of non-compliance with the CRA Regulation that have been identified and measures taken

18. CRAs should provide semi-annually detailed information regarding possible cases that may result in non-compliance with any of the initial conditions for registration, including:
- a. A description of each case which may result in a possible non-compliance with the initial conditions for registration;
 - b. A statement of the reasons why such case has arisen;
 - c. A statement of the actions undertaken by the CRA following the identification of the case concerned;
 - d. A statement of whether an internal investigation has been opened in relation to the case concerned and of whether such investigation is ongoing or closed; and where closed, furnish a copy of any consequent report made in respect of the investigation.

5.8 Organisational charts

19. CRAs should submit semi-annually organisational charts if there have been updates to the organisational charts. Such organisational chart should provide such detail as will enable ESMA to identify the structure of the following departments and should describe the main functions of the departments:
- Compliance function;
 - Internal Audit;
 - Internal Review function;
 - Business lines in charge of the ratings activities;
 - Information Security function;
 - IT department;
 - Risk function.

5.9 Compliance, Internal Audit, Risk Management

20. Each CRA should submit semi-annually its Compliance work plan in any case where an updated version of such plan has been produced during the period.
21. Where a CRA has established an Internal Audit function or commissioned internal audits from an external party, ESMA should receive a copy of the Internal Audit updated work plan in any case where an updated version of such plan has been produced during the period.
22. Each CRA should submit to ESMA copies of the reports issued by its compliance, internal audit, and risk management (covering, for example, operational or information security risks). CRAs should provide details of any follow-up action identified to mitigate



those risks.

5.10 Enterprise IT strategy

23. ESMA should be informed semi-annually of CRAs' enterprise IT strategies and of any changes made thereto.
24. ESMA should be informed semi-annually of CRAs' IT work plans and of any changes thereto. CRAs should also provide updates on the implementation status of the work plan.

5.11 Other areas

25. CRAs should also report semi-annually:

- New potential and actual conflicts of interest identified and measures taken in response thereto;
- Information on any internal review being initiated or intended to be performed on rating models and rating processes;
- Outcomes of the methodology reviews including information on any back-testing performed in the period, details of any key findings as well as actions taken by the CRA as a result.

5.12 Notifications of material changes to the initial conditions for registration

26. ESMA considers a "material change" to be a change in the information submitted in the registration application and, more generally, any change that may affect compliance with the requirements of the CRA Regulation.
27. A CRA should notify ESMA of any material changes to the conditions of its initial registration, including but not limited to the following matters:
 - a. Opening and closing of branches;
 - b. Use of endorsement;
 - c. CRAs' right to an exemption(s) given at registration;
 - d. Outsourcing arrangements;
 - e. Legal form;



- f. Business structure (including reorganisation or restructuring of the CRA activities and spin-offs);
- g. Type of business activities (including the provision of a new service and launch of new product in either the rating or non-rating business);
- h. Class and/or type of credit ratings;
- i. Ownership structure: acquisition or disposal of holdings above 5% of capital;
- j. Membership of the supervisory/administrative board;
- k. Compliance function and review function;
- l. Procedures used to issue and review credit ratings;
- m. Financial resources (including change share capital or long term debt);
- n. Rating methodologies, models or key rating assumptions;
- o. IT process and information processing systems supporting the rating process, such as changes in IT governance.

5.13 CRA supervisory fee and market share calculations

Supervisory fee

- 28. For the purpose of calculating the supervisory fees, CRAs should submit to ESMA their annual audited accounts for the previous year, at the latest by 31st May each year.
- 29. The basis for the calculation of the supervisory fee is the revenue generated from the CRA's credit rating activities and ancillary services. A CRA providing a service or services other than credit ratings should provide ESMA with a detailed description of such service(s) so that ESMA can assess whether the service(s) concerned constitute non-rating services, non-ancillary services or ancillary services.
- 30. Where a CRA, with annual total revenue of at least 10 million euro, identifies revenues as generated from non-rating activities and/or non-ancillary services, the CRA should provide ESMA with a detailed description of such activities and services. This is to allow ESMA to assess whether the revenues generated from those activities and services are eligible for deduction from the applicable turnover. The amounts corresponding to those non-rating activities and non-ancillary services should be appropriately certified by the CRA's external auditors¹.

¹ Certification may be done by the CRAs external auditor through different means such as a specified procedures report or an agreed-upon procedure report with the CRA's external auditor, a statement of the CRA's revenues or amounts billed by the CRA's external auditor, or by including this certification request in the audit engagement with the CRA's external auditor.

31. Where a CRA with annual total revenue of at least 10 million euro provides credit rating activities and ancillary services to different clients, it may request to deduct the related revenues from the calculation of the revenues generated from ancillary services. The CRA should provide ESMA with a detailed description of its internal structure, as well as relevant policies, processes and procedures, if any. This is to enable ESMA to assess, on a case by case basis, whether the outcome is the provision of services to different clients thereby removing potential conflict of interest and the need for supervisory scrutiny. On this basis, ESMA will determine whether the revenues generated from the differentiated client bases are eligible for deduction from the applicable turnover. The amounts corresponding to the revenues generated from ancillary services which are provided to different clients who do not receive rating services in the applicable financial year should be appropriately certified by the CRA's external auditors on a client-by-client basis and aggregated basis. Any change to the CRA's structure or to the relevant policies, processes or procedures relative to the provision of ancillary services to a given client should be communicated to ESMA without undue delay.
32. For the purpose of the above-mentioned calculation and the assessment of the absence of potential conflict of interests, 'client' means any client within the meaning of the term as defined in the last paragraph of point 2 of Part II of Section E of Annex I of CRA Regulation who does not receive any rating service from the CRA group².
33. Where a CRA requests any other adjustment to the applicable turnover (such as the elimination of intercompany transactions), the CRA should provide ESMA with a detailed description of the requested adjustment and the reasons for such an adjustment. The amount corresponding to such adjustment should be appropriately certified by the CRA's external auditor.
34. The calculation of a CRA's supervisory fees is without prejudice to ESMA's ongoing supervisory powers to assess whether the provision of ancillary services provided by a CRA constitutes a potential conflict of interest and, where this is the case, to adopt appropriate measures in accordance with the CRA Regulation.

5.14 CRA market share calculation

35. As the calculation of CRA's market share is made on the same basis as the calculation of supervisory fees, the guidelines for calculating the applicable turnover for supervisory fees will be applicable to the calculation of the CRA's market share.
36. For the purpose of calculating the yearly CRA's market share, CRAs with a financial year other than the calendar year should provide ESMA with the financial accounts

²The final paragraph of point 2 of Part II of Section E of Annex I of the CRA Regulation states: "*client means an entity, its subsidiaries, and associated entities in which the entity has holdings of more than 20%, as well as any other entities in respect of which it has negotiated the structuring of a debt issue on behalf of a client and where a fee was paid, directly or indirectly, to the credit ratings agency for the rating of that debt issue.*"



adjusted to the calendar year. The amounts corresponding to such adjustments should be appropriately certified by the CRA's external auditors. A CRA may also provide audited financial statements broken down by quarter or by other time periods as long as the information enables ESMA to make its annual calculation for the total market share and the calculation of the supervisory fees.



6 Annex 1: Summary of periodic information to be submitted to ESMA by Credit Rating Agencies

A. Quarterly information submissions

- Financial revenues (per type of credit rating and on individual and consolidated basis) and costs (semi-annually for CRAs exempt from supervisory fees);
- Staff turnover, vacancies and key promotions (semi-annually for CRAs exempt from supervisory fees);
- FTE headcount (semi-annually for CRAs exempt from supervisory fees);
- Internal complaints submitted to the Compliance Department.

B. Semi-annual information submissions

- Information on the initiation of any internal review being performed or intended to be performed on rating models and rating processes;
- Outcomes of methodology reviews including information on any back-testing performed in the period, details of any key findings as well as actions taken by the CRA as a result;
- Compliance, Internal Audit, Risk Management and IT strategy and governance;
- Potential cases of non-compliance with the CRA Regulation that have been identified and measures taken;
- New potential and actual conflicts of interest identified and measures taken;
- Board minutes, INED opinions and reports submitted to the Board;
- Court, arbitration and other dispute resolution proceedings;
- Updated organisational charts.