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JOINT FINAL draft Implementing Technical Standards

on the mapping of ECAIs' credit assessment under Article 136(1) and (3) of Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR)

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1. Executive Summary

Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) establishes that risk weights under the Standardised Approach should be based on the exposure class to which the exposure is assigned and, if applicable, its credit quality, determined by reference to the credit assessments of External Credit Assessment Institutions (ECAIs). As per Articles 136(1) and 136(3) of the CRR, these draft ITS specify the correspondence ('mapping') between risk weights and credit assessments (via credit quality steps) as well as the factors and benchmarks that should be taken into consideration to determine such correspondence.

The 'mapping' has to be provided for all ECAIs, defined according to Article 4(98) of the CRR. This includes any credit rating agency that is registered or certified in accordance with the CRA Regulation[1] or a central bank issuing credit ratings that are exempt from the application of CRA Regulation. This 'automatic' recognition process represents a substantial modification of the process applicable under Directives 2006/48/EC and 2006/49/EC and aims at opening the market to undertakings other than the three main ones that already dominate the market.

These ITS have been elaborated on the basis of long-term and short-term default rates which constitute the main quantitative factor that characterises the risk of a credit assessment. The same Basel II benchmarks define each risk weight (or credit quality step).

The following aspects of these draft ITS represent a material contribution to the existing regulatory framework:

- Specific requirements have been established for the calculation of the default rate, which should improve the objectivity and consistency of the 'mapping'. Special attention should be paid to the minimum size of the pool that qualifies for the calculation of the default rate and to the definition of the types of default events that should be considered by the ECAI.
- Where insufficiently numerous internal default data are available, an estimate of the quantitative factor is required based on the own belief of the ECAI (in accordance with Article 136(2)(a) of the CRR) and taking into account the prudential purpose of the CRR, with a certain degree of prudence.
- Special effort has been devoted to the implementation of the qualitative factors. However, it has to be acknowledged that a full characterisation of the use of such factors is not possible given the relevance of expert judgement in the mapping process.

[1] Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1).

The European Supervisory Authorities (ESAs) twice publicly consulted on these ITS, the first time on the draft ITS, and the second time on the addendum to the draft ITS:

- The consultation period for the draft ITS was launched on 5 February 2014 and lasted for 4.5 months, ending on 20 June 2014. A total of six responses were received, including from the EBA Banking Stakeholder Group, of which five were published.
- The consultation for the addendum to the draft ITS was launched on 30 October 2014 and lasted for 1 month, ending on 30 November 2014. A total of six responses were received, of which three were published.

In addition, the ESAs received, in confidence, other comments from interested stakeholders. The amendments applied to the draft ITS are representative of the considerations raised during the consultations, which have been carefully assessed by the ESAs to formulate the final draft ITS presented in this document.

The overall structure of these ITS has not been amended following the comments from the consultation, although some policy modifications have been applied and efforts have been made to simplify and clarify the initial draft. With regard to the usage of different measures of creditworthiness for the calculation of the quantitative factors, they have been moved in the qualitative section of the ITS, recognising their lower reliability for the purpose of calculating the quantitative factors, as was suggested in the comments received during the consultation. With respect to the quantitative requirements for small and newly established ECAIs which, due to their more recent entry to the market present limited quantitative information, the ESAs recognise some merit in the comments received during the consultation and propose through these ITS a phase-in period, with the view to ensuring a prudentially sound approach for the mapping while acknowledging the potential market impact.

As a result, in cases where there is limited quantitative information, with the view to ensuring objectivity and consistency in the mappings, these ITS propose that two mappings should apply: a first mapping should apply for a limited period of 3 years; thereafter another mapping should become applicable. Both mappings should take into account quantitative and qualitative factors. The quantitative factors for deriving the first mapping applicable until 31 December 2018 should be relaxed. This would allow ECAIs which present limited quantitative information to enter the market and would incentivise them to collect a sufficient number of data.

These ITS replace the Committee of European Banking Supervisors 'Guidelines on the recognition of External Credit Assessment Institutions' (published on 20 January 2006 and reviewed on 30 November 2010). In the new regulatory framework the ECAI recognition process for the purpose of the mapping is different from the one required under Directives 2006/48/EC and 2006/49/EC. In turn these ITS will replace also the existing mappings of ECAIs' credit assessments issued by the National Competent Authorities, given that such mappings rely on those Guidelines.

2. Background and rationale

The nature of ITS under EU law

These draft ITS are produced in accordance with Article 15 of Regulation (EU) No 1093/2010 (the EBA regulation). Article 15(4) of the EBA Regulation stipulates that they shall be adopted by means of regulations or decisions. According to EU law, EU regulations are binding in their entirety and directly applicable in all Member States. This means that on the date of their entry into force, they become part of the national law of the Member States and that their implementation into national law is not only unnecessary but also prohibited by EU law, except in so far as this is expressly required by them.

Background to these draft ITS

Use of external credit assessments in the CRR/CRD IV

Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) allows the use of external credit assessments of ECAIs to determine the credit quality that will be used to set the corresponding risk weight under the Standardised Approach (see Article 113(1) of the CRR). This provision is equivalent to the provisions of the Basel II framework and represents a significant enhancement in the risk sensitivity and prudential soundness of the credit risk rules.

The application of these draft ITS is especially important for institutions where credit risk is less material, which is typically the case for less sophisticated institutions, for insignificant exposure classes, or in situations where using internal approaches would be overly burdensome. Where credit risk is material, institutions should therefore generally seek to implement internal ratings-based approaches or internal models.

Notwithstanding the principle stated in the previous paragraph, the G-20 conclusions and the Financial Stability Board (FSB) principles for reducing reliance on external credit ratings should also be taken into account. Therefore, although the analysis behind the 'mapping' of each ECAI and its regular monitoring over time should alleviate any mechanistic overreliance of the credit risk rules on external ratings, institutions should be encouraged to use internal ratings rather than external credit ratings, even for the purpose of calculating own fund requirements as a way to reduce overreliance (on external credit ratings).

ECAIs and relevant external credit assessments

As stated in Article 135(1) of the CRR, external credit assessments can be used only if they have been provided by an ECAI. These draft ITS specify, for all ECAIs, the mappings that should be used for determining the own fund requirements under the Standardised Approach.

An ECAI is defined as any credit rating agency registered or certified in accordance with the CRA Regulation[2] or any central bank issuing credit ratings that are exempt from the application of the CRA Regulation. This 'automatic' recognition process represents a substantial modification to the process applicable under Directives 2006/48/EC and 2006/49/EC and aims at opening the market to undertakings other than the three main ones that already dominate the market.

ECAIs produce a wide variety of credit assessments. Although credit assessments mainly refer to the ability of the issuer to pay back traditional debt-like instruments, they may also refer to other types of instruments such as hybrid instruments, bank deposits, claims on insurance policies or shares in income funds. These draft ITS refer to credit assessments that can be used to determine the risk weight of non-securitisation exposures under the Standardised Approach. Therefore, credit assessments of covered bonds and shares in collective investment undertakings (CIUs) have been considered. Exposures to specific types of obligors are also allowed to be risk weighted on the basis of external credit assessments. This is the case with regard to exposures to the public sector (central/regional governments, central banks, local authorities and public sector entities), institutions (including multilateral development banks) and corporates. In all these cases, the credit assessments that comply with the definition of 'credit rating' provided in the CRA Regulation[3] have been considered.

Structure of the ITS

These draft ITS serve the two mandates contained in Article 136 of the CRR. As per paragraph 3 of that Article, the draft ITS specify the elements that should be considered to characterise the degree of risk expressed by a credit assessment of an ECAI (quantitative and qualitative factors) as well as the levels of risk that should be used to characterise each credit quality step ('benchmark'). As per paragraph 1 of that Article, the draft ITS also specify the resulting mapping of each relevant credit assessment for each ECAI.

The legal mandate is restricted to the specification of the quantitative and qualitative factors, the benchmark and the 'mappings'.

[2] Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1).

[3] According to Article 3(1)(a), 'credit rating' means an opinion regarding the *creditworthiness* of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such instruments, issued using an established and defined ranking system of rating categories.

Main policy options

The draft ITS have been elaborated on the basis of the regulatory framework in force prior to the entry into force of the CRR[4], which essentially relies on the international agreement reflected in the Basel II framework published in June 2004.

The default rate of the items assigned the same credit assessment constitutes the main quantitative factor to measure the underlying level of risk. Both short-run and long-run default rates have been proposed. The long-run default rate should provide the basis of the mapping proposal and the short-run default rate should indicate a weakening of the assessment standards of the ECAI that might be affecting the underlying level of risk.

In a situation where insufficient default data from rated items are available, the estimate of the default rate provided by the ECAI in accordance with Article 136(2)(a) of the CRR should be addressed, taking into account the prudential purpose of the CRR. This prudential principle, directly observable in the quantification of risk of internally rated exposures (see Article 179(1)(a) of the CRR), is considered of equal importance in the case of the quantification of risk of externally rated exposures. Failure to do this would make it very difficult to impose a conservative mapping of credit assessments where the default data showed poor performance by the ECAI. In any case, it should be made clear that qualitative factors may challenge the mapping stemming from this conservative estimate of the long-run default rate.

Another important step forward regarding the objectivity and consistency of the mapping process is the establishment of certain requirements for the calculation of the default rate. Special attention should be paid to the dependency of the required minimum number of observations related to a credit assessment on its perceived risk profile and to the definition of the types of default events that should be considered. Regarding the latter, it is worth noting two aspects. First, ECAIs use different default definitions, as reflected in the CRA Regulation[5] and Commission Delegated Regulation (EU) No 2015/2[6]. Therefore, the types of default events underlying the calibration of the benchmark have been proposed to ensure that the overall level of calibration of the mappings does not change with respect to the previous regulatory framework. Second, any difference in the level of strictness of an ECAI's default definition with respect to other ECAIs has a large potential to affect the level playing field, since the mappings would not have been done under similar terms. Therefore, the types of default event considered by each ECAI should be compared with those used to calibrate the benchmark.

[4] Annex 2 of the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework — Comprehensive Version' dated June 2006 and Part 3 of the document 'Revised Guidelines on the recognition of External Credit Assessment Institutions' dated 30 November 2010.

[5] Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, Annex I, Section D, I.(2)(c).

[6] Commission Delegated Regulation (EU) 2015/2 of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to regulatory technical standards for the presentation of the information that credit rating agencies make available to the European Securities and Markets Authority, OJ L 2, 6.1.2015, p. 24.

The role of the qualitative factors should be more important where the default experience is less conclusive about the mapping of a rating category. For this purpose, a set of qualitative factors has been identified to challenge the information contained in the quantitative factor.

These draft ITS propose that all available information be used to calculate a proxy for the default rate, in order to contribute to the objectivity and consistency of the process. Therefore, in cases where default data from rated items are not sufficient, default experience stemming from other sources (such as external ratings of other ECAIs or credit scores produced by the ECAI itself) should also be considered. However such default experience stemming from other sources is not considered to be as reliable and relevant as the default information from rated items, so that it has to be carefully analysed before its application for the purposes of the mapping exercise.

The time horizon considered in the credit rating is also a relevant factor. Given that the time horizon chosen for the calculation of the default rate is equal to 3 years, this same time horizon should be considered when default data are not available to ensure consistency across ECAIs. As a consequence, where the credit rating is based on a shorter horizon, the expected level of risk of the rating category beyond its time horizon (for example, the second and third years if the time horizon of the credit rating is 12 months) should be considered to assess the level of risk of the rating category that is relevant for the mapping.

Although mostly considered as an ordinal measure of risk, the meaning and range of the credit assessments of an ECAI can be particularly helpful in certain situations. For example, where the mapping of the adjacent credit assessment is already known or where the meaning already indicates a situation close to default, the mapping of a rating category can be implicitly derived from this information.

The internal relationship established by an ECAI between its different rating scales for various kinds of credit assessments (e.g. short-term credit assessments and credit assessments available for CIUs) should also be helpful, especially where the credit assessments do not have the same meaning. In these cases, the internal relationship established by the ECAI between such credit assessments and the main rating scale should provide the basis for the mapping of the former, as long as the mapping of the latter is already known.

Finally, the estimate provided by the ECAI of the long-run default rate associated with its rating categories should also be considered, provided that it has been adequately justified. The relative importance of the estimate compared with the default rate calculated according to these draft ITS should depend on the amount of default information available for the rated items. When there is sufficient quantitative default information, the default rates calculated according to these draft ITS should contain all relevant information and any material difference from the estimate provided by the ECAI should lead to an investigation of the source of divergence. When the quantitative default information is not sufficient, the estimate provided by the ECAI should be used as complementary information.

The benchmarks proposed in these draft ITS have been chosen to maintain the overall level of capital required for externally rated exposures under the Standardised Approach. Whereas the CRD IV and CRR have increased the overall level of capital required for credit institutions and investment firms by different means, there are no reasons to indirectly modify the overall level of the risk weights specified under the Standardised Approach. Therefore, these draft ITS propose the same values as contained in the Basel II framework, which will ensure international consistency. The only difference is that a set of lower and upper bounds have been provided for the long-run default rate benchmark to acknowledge that a range of values can be compatible with each credit quality step.

3. JOINT FINAL draft Implementing Technical Standards on the mapping of ECAIs' credit assessments under Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

EUROPEAN COMMISSION

Brussels, XXX
[…](2013) XXX draft

COMMISSION IMPLEMENTING REGULATION (EU) No …/..

of XXX

laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council

(Text with EEA relevance)

COMMISSION IMPLEMENTING REGULATION (EU) No …/..

of XXX

laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms[1], and in particular the third subparagraph of Article 136(1) and the third subparagraph of Article 136(3) thereof,

Whereas:

(1) The provisions in this Regulation are closely linked, since they deal with the mapping of credit risk assessments with the exception of those assigned to securitisation positions. To ensure coherence between those provisions, which should enter into force at the same time, and to facilitate a comprehensive view and compact access to them by those subject to those obligations, it is desirable to include all the implementing technical standards required by Regulation (EU) No 575/2013 in relation to the mapping of credit risk assessments with the exception of those assigned to securitisation positions in a single Regulation.

(2) Article 136(1) of Regulation (EU) No 575/2013 requires the specification, for all ECAIs, of the correspondence of the relevant credit assessments issued by an ECAI to the credit quality steps set out in Section 2 of that Regulation ('mapping'). External credit assessment institutions ('ECAIs') are credit rating agencies that are registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council[2] or a central bank issuing credit ratings which are exempt from the application of that Regulation.

(3) Certain similar terms and concepts used in Regulation (EC) No 1060/2009 and in Regulation (EU) No 575/2013 can be the subject of confusion. 'Credit assessment' is

[1] OJ L 176, 27.6.2013, p. 1.

[2] Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ L 302, 17.11.2009, p. 1).

a term used under Regulation (EU) No 575/2013 to refer both to the 'labels' of the different categories of ratings by ECAIs, and to the assignment of one such rating to a particular item. However, points (h) and (a) of Article 3(1) of Regulation (EC) No 1060/2009 clearly distinguish between these two concepts with the use of the terms 'rating category' and 'credit rating', respectively. To avoid confusion, given the need to refer to these two particular concepts separately, and given the complementarity of the two Regulations, the terminology of Regulation (EC) No 1060/2009 should be used as more specific.

(4) Given that Article 4(1) of Regulation (EC) No 1060/2009 permits the use of credit ratings for regulatory purposes by credit institutions and investment firms only if issued by credit rating agencies established in the Union and registered or certified in accordance with that Regulation, the mapping of ECAIs credit assessments should cover credit assessments that comply with the definition of 'credit rating' according to point (a) of Article 3(1) of that Regulation. Further, given that by virtue of Article 135 of Regulation (EU) No 575/2013, a mapping is required for all ECAIs, the definition of which includes, by virtue of Article 4(98) of that Regulation also credit ratings produced by central banks exempted from the application of Regulation (EC) No 1060/2009, the mapping of ECAIs rating categories should also cover such credit ratings as well. Regulation (EU) No 575/2013 prevents the use of credit ratings for certain asset classes (such as equity) within the Standardised Approach. Therefore, with regards to assessments for fixed-income collective investment undertakings (CIUs), only those that solely depend on the credit quality of the underlying assets should be covered by the mapping of ECAIs' credit assessments.

(5) The mapping has the objective of assigning the appropriate risk weights of Regulation (EU) No 575/2013 to the rating categories of an ECAI. Therefore, it should be able to identify not only relative differences of risk but also the absolute levels of the risk of each rating category, ensuring appropriate levels of capital under the Standardised Approach.

(6) Given the wide range of methodologies across ECAIs, objectivity and consistency of the mapping methodology are key aspects for ensuring a level playing field for institutions as well as fairness of treatment for ECAIs. For this reason, when elaborating rules on the use of quantitative and qualitative factors and their comparison with the benchmark, it is necessary to build upon the previous regulatory framework, namely Part 3 of the 'Revised Guidelines on the recognition of External Credit Assessment Institutions' dated 30 November 2010, with a view to ensuring a smooth transition to the mapping set out in this Regulation. This would also ensure consistency with international standards in this area, reflected, in turn, in Annex 2 of the 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006.

(7) The default definitions used by ECAIs may differ from the one set forth in Article 178 of Regulation (EU) No 575/2013, as reflected in Regulation (EC) No 1060/2009 and Commission Delegated Regulation (EU) 2015/2[3]. Nevertheless, in order to

[3] Commission Delegated Regulation (EU) 2015/2 of 30 September 2014 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to regulatory technical standards for the

ensure that the overall level of the capital required to externally rated exposures is not changed, the types of default events used for the calibration of the benchmark referred to in point (c) of Article 136(2) of Regulation (EU) No 575/2013 should be used as the default definition for the purposes of this Regulation.

(8) The mapping should be understood as the correspondence of the rating categories of an ECAI with a regulatory scale which has been defined for prudential purposes. Therefore it should be considered as a distinct concept from the one the European Securities and Markets Authority is required to provide in the form of a report, by virtue of Article 21(4b) of Regulation (EC) No 1060/2009 aiming at allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity. Also for the purposes of this Regulation "mapping" does not refer to mappings which are developed under other frameworks, such as the Eurosystem Credit Assessment Framework, as these may operate on different methodologies and definitions.

(9) A different mapping should be conducted for each relevant set of rating categories ('rating scale'). When the rating scale of an ECAI is the same across exposure classes, the mapping should not differ in order to guarantee the differentiation of risk weights across exposure classes established by Regulation (EU) No 575/2013. When an ECAI has several rating scales, the relationship established by the ECAI among them should be considered for the mapping.

(10) Unsolicited ratings, as referred to in point (x) of Article 3 of Regulation (EC) No 1060/2009, should be included in the mapping of an ECAI as long as these ratings can be used for regulatory purposes in accordance with Article 4(1) of Regulation 1060/2009 and the EBA has confirmed that they do not differ in quality from solicited credit ratings of this ECAI in accordance with paragraph 1 of Article 138 of Regulation (EU) No 575/2013.

(11) Both quantitative and qualitative factors should be used to produce a mapping, with the qualitative factors being considered in a second stage, as and when necessary and especially where quantitative factors are not adequate. As a result qualitative factors should assist in reviewing, correcting and enhancing any initial mapping done based on quantitative factors, where such review is justified and necessary. This two-step approach is required in order to contribute to the objectivity of the mapping and to ensure that the mapping actually represents the correspondence of the rating categories of an ECAI with a regulatory scale which has been defined for prudential purposes. In this regard, whenever the quantitative information supported by the available data becomes less satisfactory or is not available, the level of prudence applied to the development of that mapping should increase to compensate for the lack of empirical evidence.

(12) It is necessary to avoid causing undue material disadvantage on those ECAIs which, due to their more recent entrance in the market, present limited quantitative

presentation of the information that credit rating agencies make available to the European Securities and Markets Authority (OJ L 2, 6.1.2015, p. 24).

information, with the view to balancing prudential with market concerns. Therefore, where there is limited quantitative information, two mappings should apply: the first mapping should apply for a limited period of three years; thereafter another mapping should become applicable. Both mappings should take into account quantitative and qualitative factors. Compared to the second mapping, the quantitative factors for deriving the first mapping should be relaxed. Updates to the mapping should be made whenever this becomes necessary, including in relation to the mapping to be applied after the three years, to reflect quantitative information collected during the three year-period. Nevertheless, in the absence of such a review, an automatic return to the most prudent approach following a three-year period is desirable given the role of mapping in the overall prudential regulatory framework and in order to ensure a level-playing field.

(13) The default rate associated with items assigned the same rating category should be considered as the most representative quantitative factor, and should be calculated from default data corresponding to such items. Where sufficient default data corresponding to these items is not available, an estimate of the default rate should still be calculated on the basis of the opinion of the relevant ECAI and any default evidence associated with the items assigned the same rating category for which the mapping is being performed.

(14) The calculation of the default rate should meet certain requirements in order to ensure that it is comparable across ECAIs. For example, it should be measured over a three-year time horizon in order to allow the observation of a significant number of defaults when risk is very low and it should account for withdrawals to avoid an underestimation of risk. In addition, it should include neither public sector ratings nor issue ratings, given the scarcity of defaults for the former type of ratings, and to avoid biasing the default rates towards issuers with higher number of issues by using the latter ratings.

(15) Default rates should be calculated for each rating category to the extent possible over a long term and a short term observation period. The former should provide the basis for the mapping, whereas the latter should provide an early warning about a potential increase, or decrease, in the level of risk of the rating category. Where a sufficient number of credit ratings is not available, only the long run default rate should be calculated due to the high degree of uncertainty regarding the calculation of short run default rates. In this case, a warning about a potential increase in the level of risk of the rating category should be provided by the qualitative factors.

(16) The definition of default established by the ECAI to calculate the default rate associated with items assigned the same rating category is a key element of the mapping. A stricter definition of default may produce higher default rates compared to other less strict default definitions. Therefore the impact of the definition of default on the calculation of the default rate should be estimated in order to ensure an accurate mapping.

(17) When only scarce default data is available, the time horizon considered in a rating category should be taken into account for the purpose of the mapping to ensure consistency across ECAIs. Thus, where a short term horizon has been chosen, some items may qualify for a particular level of risk. However, these same items may

represent a significantly different level of risk if evaluated over the three-year time horizon chosen for the calculation of the default rate. This factor should be recognised and appropriately reflected in the mapping.

(18) The meaning of the rating category and its relative position within the rating scale should be especially helpful when there is no quantitative factor available and the mapping of adjacent rating category is known. For that purpose, credit quality steps should be characterised in terms of aspects such as the capacity of the issuer to meet its financial obligations, its sensitivity to the economic situation or its proximity to the default status.

(19) General risk drivers of the items assigned a rating category should also be taken into account. The size and the degree of activity diversification of the items assigned a rating category should be considered as relevant indicators of their underlying risk profile. It should also be possible to consider as qualitative factors other measures of creditworthiness assigned to items of the same rating category, in order to convey additional information with respect to the default behaviour of the relevant rating category. The relevance, objectivity and reliability of the different measures of creditworthiness should be carefully analysed before their application for the purpose of the mapping exercise.

(20) With a view to ensuring consistency with international standards, the benchmarks of the long-run and short run default rates provided in the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006, should be used for the purpose of the mapping exercise. However, more detailed rules should be provided to account for the variety of ECAIs that currently operate in the EU market and whose default rates may significantly deviate from the pattern of the international ECAIs underlying the current benchmark. More concretely, the long-run benchmark should be defined in terms of intervals to acknowledge that a range of values can be compatible with each credit quality step.

(21) Rating categories should be initially mapped to a credit quality step based on the comparison of their long-run default rate with the long-run benchmark and the information provided by the qualitative factors.

(22) Pursuant to Article 136(1) second subparagraph of Regulation (EU) No 575/2013 the adequacy of the mapping should be reviewed frequently because the long-run default rate could change and become representative of a different credit quality step. To that end, recent short run default rates experienced within a rating category should be regularly confronted with their relevant short run benchmarks ('monitoring' and 'trigger' levels). A breach of the short run benchmarks for a consecutive period of two years could signal a weakening of assessment standards which could imply that the new underlying long-run default rate is representative of a less favourable credit quality step. This signal would be more relevant where the trigger level is breached instead of the monitoring level. With respect to small and newly established ECAIs where a sufficient number of credit ratings, as those referred to in Article 6 of this Regulation, is not available, close monitoring of performance, among others focused on the number of defaulted and non-defaulted items, should be under particular consideration. In particular, any single defaulted item associated with the highest

rating categories should trigger consideration of the review of the mapping assigned to the single ECAI that rated that item.

(23) Revised draft implementing technical standards should be submitted where new ECAIs are established.

(24) Given that compliance with Regulation (EU) No 575/2013 is required at all times, it is necessary to monitor the performance of the mappings on a continuous basis.

(25) This Regulation is based on the draft implementing technical standards submitted by EBA, ESMA and EIOPA jointly to the Commission.

(26) EBA, ESMA and EIOPA have conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[4]; the opinion of the Securities and Markets Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council[5]; and the opinion of the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council[6],

HAS ADOPTED THIS REGULATION:

[4] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p.12).

[5] 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 (OJ L 331, 15.12.2010, p. 84).

[6] Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

TITLE I
Quantitative factors, qualitative factors and benchmark

CHAPTER 1

QUANTITATIVE FACTORS

Article 1
Quantitative factors of the mapping of a rating category

The quantitative factors referred to in point (a) of Article 136(2) of Regulation (EU) No 575/2013 shall be the short run and long run default rates associated with items assigned the same rating category, as set out in Articles 2 to 6.

Article 2
Items used for the calculation of the quantitative factors

The calculation of the default rates referred to in Article 1 for each rating category shall be performed based solely on items assigned the same rating category by the external credit assessment institution (ECAI) for which the mapping is being performed, where the items meet all of the following requirements:

(a) they belong to the 'corporate ratings' referred to in point (a) of Article 3 of Commission Delegated Regulation (EU) 2015/2, and they are assigned on an issuer basis;

(b) they are assigned either of the following:

(i) a solicited credit rating;

(ii) an unsolicited credit rating that meets the requirements of Article 138 of Regulation (EU) No 575/2013.

SECTION 1
CALCULATION OF THE QUANTITATIVE FACTORS OF A RATING CATEGORY WHERE A SUFFICIENT NUMBER OF CREDIT RATINGS IS AVAILABLE

Article 3
Determination of whether a sufficient number of credit ratings is available

1. For the purpose of the short run default rate calculation, the number of items assigned the same rating category by the ECAI for which the mapping is being performed shall be deemed sufficiently numerous, where the items meet all of the following requirements:

(a) they are sufficient with respect to the perceived risk profile of the rating category, considering as an indicator, the number of items representing the

inverse of the long run default rate benchmark of the rating category, as referred to in point (a) of Article 14;

(b) they are representative of the most recent pool of items assigned the same rating category.

2. For the purpose of the long run default rate calculation, the number of items assigned the same rating category by the ECAI for which the mapping is being performed shall be deemed sufficiently numerous where at minimum the most recent 10 short run default rates as referred to in paragraph 1 are available.

Article 4

Short run default rates of a rating category where a sufficient number of credit ratings is available

1. Where a sufficient number of credit ratings is available according to Article 3(1), the short run default rates referred to in Article 1 shall be calculated in the manner described in paragraphs 2 to 5.

2. The short run default rates of a rating category shall be calculated over a 3-year time horizon as a ratio where:

(a) the denominator represents the number of items assigned the same rating category present at the beginning of the time horizon;

(b) the numerator represents the number of items referred to in point (a) that have defaulted prior to the end of the time horizon.

3. Items withdrawn prior to the end of the time horizon and not defaulted shall only contribute to the denominator of the short run default rates referred to in point (a) of paragraph 2 with a weight equal to 50%. Any item for which there is evidence that it has been withdrawn prior to the occurrence of a default shall be considered to be a defaulted item.

4. Items shall be considered to be defaulted items to be included in the numerator specified in point (b) of paragraph 2 where any of the following types of event has occurred:

(a) a bankruptcy filing or legal receivership that will likely cause a miss or delay in future contractually required debt service payments;

(b) a missed or delayed disbursement of a contractually required interest or principal payment, unless payments are made within a contractually allowed grace period;

(c) a distressed exchange if the offer implies the investor will receive less value than the promise of the original securities;

(d) the rated entity is under a significant form of regulatory supervision owing to its financial condition.

5. The short run default rates shall be calculated for each available pool of items assigned the same rating category on semi-annual periods, which are based on 1 January and 1 July of each year.

Article 5

Long run default rate of a rating category where a sufficient number of credit ratings is available

1. Where a sufficient number of credit ratings is available in accordance with Article 3, the long run default rate referred to in Article 1 shall be calculated according to paragraphs 2 to 4.

2. The long run default rate shall be calculated as the weighted average of at least the most recent 20 short run default rates calculated according to Article 4(1). If the available short run default rates span a longer period and they are relevant, the short run default rates for that longer period shall be used. Where less than 20 short run default rates calculated according to Article 4(1) are available the remaining short run default rates shall be estimated to span the 20 short run default rates.

3. For the purpose of producing the weighted average referred to in paragraph 2, the short run default rates calculated according to Article 4 shall include the most recent recessionary period. This recessionary period shall span a semester or more of the negative growth rates of the Gross Domestic Products in the main geographical areas of reference of the rated items.

4. For the purpose of producing the weighted average referred to in paragraph 2, the following shall apply:

   (a) the short run default rates calculated according to Article 4(1) shall be weighted based on the number of items specified in point (a) of Article 4(2);

   (b) the estimated short run default rates shall be weighted based on estimates of the number of items assigned the same rating category present at the beginning of the time horizon.

   The weights shall ensure an adequate representation of recessionary and non-recessionary years in a full economic cycle.

SECTION 2

CALCULATION OF THE QUANTITATIVE FACTORS OF A RATING CATEGORY WHERE A SUFFICIENT NUMBER OF CREDIT RATINGS IS NOT AVAILABLE

Article 6

Items used and long run default rate of a rating category where a sufficient number of credit ratings is not available

Where a sufficient number of credit ratings as referred to in Article 3 is not available, the calculation of the long run default rate specified in Article 1 shall be performed according to both the following:

(a) it shall be based on the estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category, pursuant to point (a) of Article 136(2) of Regulation (EU) No 575/2013;

(b) the estimate referred to in point (a) shall be complemented with the number of defaulted and non-defaulted items assigned the rating category by the ECAI for which the mapping is being performed.

CHAPTER 2

QUALITATIVE FACTORS

Article 7

Qualitative factors of the mapping of a rating category

The qualitative factors referred to in point (b) of Article 136(2) of Regulation (EU) 575/2013 shall be:

(a) the definition of default considered by the ECAI, as referred to in Article 8;

(b) the time horizon of a rating category considered by the ECAI, as referred to in Article 9;

(c) the meaning of a rating category and its relative position within the rating scale established by the ECAI, as referred to in Article 10;

(d) the creditworthiness of the items assigned the same rating category, as referred to in Article 11;

(e) the estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category, pursuant to point (a) of Article 136(2) of Regulation (EU) No 575/2013, as set out in Article 12;

(f) the relationship established by the ECAI ('internal mapping'), where available, between, on the one hand, the rating category which is being mapped, and¸ on the other hand, other rating categories produced by the same ECAI, where a mapping for the latter categories has already been set out according to this Regulation, as referred to in Article 13;

(g) any other relevant information that can describe the degree of risk expressed by a rating category.

Article 8

Definition of default used by the ECAI

The type of events considered by the ECAI for the purposes of establishing whether an item is in default situation shall be compared to those specified in Article 4(4) by using all available information. Where the comparison indicates that not all such types of default events have been considered by the ECAI, the quantitative factors referred to in Article 1 shall be adjusted accordingly.

Article 9
Time horizon of a rating category

The time horizon considered by the ECAI for assigning a rating category shall provide a relevant indication of whether the level of risk of that rating category is sustainable over the time horizon specified in Article 4(2).

Article 10
Meaning and relative position of a rating category

1. The meaning of a rating category established by the ECAI shall be set according to the characteristics of the capacity of financial commitments as reflected in the items assigned such rating category being honoured, and more in particular by its degree of sensitivity to the economic environment and its degree of proximity to the default situation.
2. The meaning of a rating category shall be compared to the one established for each credit quality step, as set out in Article 15.
3. The meaning of a rating category shall be considered in combination with its relative position within the rating scale established by the ECAI.

Article 11
Creditworthiness of items assigned the same rating category

1. The creditworthiness of items assigned the same rating category shall be determined by considering at least their size and the degree of sector and geographical diversification of their business activity.
2. Different measures of creditworthiness assigned to items of the same rating category may be used, to the extent appropriate, to complement the information provided by the quantitative factors referred to in Article 1 where they are reliable and relevant for the mapping.

Article 12
Estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category

The estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category shall be taken into account for the purpose of the mapping as long as it has been adequately justified.

Article 13
Internal mapping of a rating category established by the ECAI

The corresponding credit quality step of other rating categories produced by the same ECAI for which an internal mapping exists according to point (f) of Article 7 shall be used as a relevant indication of the level of risk of the rating category which is being mapped.

CHAPTER 3

BENCHMARK AND RELATED REFERENCES

Article 14
Benchmark

The benchmark referred to in point (c) of Article 136(2) of Regulation (EU) No 575/2013, shall be distinguished in:

(a) a long-run default rate benchmark for each credit quality step as set out in Table 1 of Annex I;

(b) a short-run default rate benchmark for each credit quality step as set out in Table 2 of Annex I.

Article 15
Reference meaning of the rating category per credit quality step

The reference meaning of a rating category that corresponds to each credit quality step is set out in Annex II.

TITLE II

Mapping tables

Article 16
Mapping tables

The correspondence of the rating categories of each ECAI with the credit quality steps set out in Section 2 of Chapter 2 of Title II of Part Three of Regulation (EU) No 575/2013 is that set out in Annex III.

TITLE III

Final provision

Article 17
Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

On behalf of the President
[Position]

ANNEX I

Benchmarks for the purposes of Article 14

Table 1

Long-run benchmark
(3-year time horizon)

Credit Quality Step	Long run benchmark		
	Mid value	Lower bound	Upper bound
1	0.10%	0.00%	0.16%
2	0.25%	0.17%	0.54%
3	1.00%	0.55%	2.39%
4	7.50%	2.40%	10.99%
5	20.00%	11.00%	26.49%
6	34.00%	26.50%	100.00%

Table 2

Short run benchmarks
(3-year time horizon)

Credit Quality Step	Short run benchmarks	
	Monitoring level	Trigger level
1	0.80%	1.20%
2	1.00%	1.30%
3	2.40%	3.00%
4	11.00%	12.40%
5	28.60%	35.00%
6	not applicable	not applicable

ANNEX II

Reference meaning of the rating category per credit quality step for the purposes of Article 15

Credit Quality Step	Meaning of the rating category
1	The rated entity has extremely/very strong capacity to meet its financial commitments and is subject to minimal/very low credit risk.
2	The rated entity has strong capacity to meet its financial commitments and is subject to low credit risk but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than rated entities in CQS 1.
3	The rated entity has adequate capacity to meet its financial commitments and is subject to moderate credit risk. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the rated entity to meet its financial commitments.
4	The rated entity has the capacity to meet its financial commitments but is subject to substantial credit risk. It faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions, which could lead to the rated entity's inadequate capacity to meet its financial commitments.
5	The rated entity has the capacity to meet its financial commitments but is subject to high credit risk. Adverse business, financial, or economic conditions will likely impair the rated entity's capacity or willingness to meet its financial commitments.
6	The rated entity is currently vulnerable or highly vulnerable and is subject to very high credit risk, including in or very near to default. It is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.

ANNEX III

Mapping tables for the purposes of Article 16

Credit quality step	**1**	**2**	**3**	**4**	**5**	**6**
AM Best Europe-Rating Services Ltd.						
Long-term issuer credit ratings scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, rs
Long-term debt ratings scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d
Financial strength ratings scale	A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term ratings scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4		
ARC Ratings S.A. *From entry into force to 31.12.2018*						
Medium and long-term issuers rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Medium and long-term issues rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuers rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Short-term issues rating scale	A-1+	A-1	A-2, A-3	B, C, D		

ARC Ratings S.A. *From 01.01.2019 onwards*						
Medium and long-term issuers rating scale		AAA, AA, A		BBB	BB	B, CCC, CC, C, D
Medium and long-term issues rating scale		AAA, AA, A		BBB	BB	B, CCC, CC, C, D
Short-term issuers rating scale		A-1+, A-1		A-2, A-3, B, C, D		
Short-term issues rating scale		A-1+, A-1		A-2, A-3, B, C, D		
ASSEKURATA Assekuranz Rating-Agentur GmbH *From entry into force to 31.12.2018*						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC/C, D
Short-term corporate rating scale	A++	A		B, C, D		
ASSEKURATA Assekuranz Rating-Agentur GmbH *From 01.01.2019 onwards*						
Long-term credit rating scale		AAA, AA, A	BBB		BB	B, CCC, CC/C, D
Short-term corporate rating scale		A++, A		B, C, D		
Axesor SA						

From entry into force to 31.12.2018						
Global rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D, E
Axesor SA *From 01.01.2019 onwards*						
Global rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D, E
BCRA – Credit Rating Agency AD *From entry into force to 31.12.2018*						
Bank long-term ratings scale	AAA, AA	A	BBB	BB	B	C, D
Insurance long-term ratings scale	iAAA, iAA	iA	iBBB	iBB	iB	iC, iD
Corporate long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Municipality long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Issue long-term ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Bank short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Corporate short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Municipality short-term ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Issue short-term rating scale	A-1+	A-1	A-2, A-3	B, C, D		

BCRA – Credit Rating Agency AD *From 01.01.2019 onwards*						
Bank long-term ratings scale		AAA, AA, A	BBB	BB		B, C, D
Insurance long-term ratings scale		iAAA, iAA, iA	iBBB		iBB	iB, iC, iD
Corporate long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Municipality long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Issue long-term ratings scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D
Bank short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Corporate short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Municipality short-term ratings scale		A-1+, A-1	A-2, A-3	B, C, D		
Issue short-term rating scale		A-1+, A-1	A-2, A-3	B, C, D		
Banque de France *From entry into force to 31.12.2018*						
Global long-term issuer credit ratings scale	3++	3+, 3	4+	4, 5+	5, 6	7, 8, 9, P
Banque de France *From 01.01.2019 onwards*						

Global long-term issuer credit ratings scale	3++	3+	3, 4+	4, 5+	5, 6	7, 8, 9, P
Capital Intelligence Ltd *From entry into force to 31.12.2018*						
International long-term issuer rating scale	AAA, AA	A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
International short-term issuer rating scale	A-1+	A-1	A-2, A-3	B, C, D		
International short-term issue rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Capital Intelligence Ltd *From 01.01.2019 onwards*						
International long-term issuer rating scale		AAA, AA, A	BBB	BB	B	C, RS, SD, D
International long-term issue rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D
International short-term issuer rating scale		A-1+, A-1	A-2, A-3	B, C, D		
International short-term issue rating scale		A-1+, A-1	A-2, A-3	B, C, D		
Cerved Rating Agency S.p.A. *From entry into force to 31.12.2018*						
Corporate long-term rating scale	A1.1, A1.2, A1.3	A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
Cerved Rating Agency S.p.A.						

From 01.01.2019 onwards						
Corporate long-term rating scale		A1.1, A1.2, A1.3, A2.1, A2.2, A3.1	B1.1, B1.2	B2.1, B2.2	C1.1	C1.2, C2.1
Creditreform Ratings AG *From entry into force to 31.12.2018*						
Long-term rating scale	AAA, AA	A	BBB	BB	B	C, D
Creditreform Ratings AG *From 01.01.2019 onwards*						
Long-term rating scale		AAA, AA, A	BBB	BB	B	C, D
CRIF S.p.A. *From entry into force to 31.12.2018*						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, D1, D2
CRIF S.p.A. *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, D1, D2
Dagong Europe Credit Rating *From entry into force to 31.12.2018*						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D

Short-term credit rating scale	A-1		A-2, A-3	B, C, D		
Dagong Europe Credit Rating *From 01.01.2019 onwards*						
Long-term credit rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale		A-1	A-2, A-3	B, C, D		
DBRS Ratings Limited						
Long-term obligations rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale	R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		
Claims paying ability rating scale	IC-1	IC-2	IC-3	IC-4	IC-5	D
European Rating Agency, a.s. *From entry into force to 31.12.2018*						
Long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, D
Short-term rating scale		S1	S2	S3, S4, NS		
European Rating Agency, a.s. *From 01.01.2019 onwards*						
Long-term rating scale		AAA, AA, A	BBB	BB		B, CCC, CC, C, D

Short-term rating scale		S1	S2	S3, S4, NS		
EuroRating Sp. z o.o. *From entry into force to 31.12.2018*						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
EuroRating Sp. z o.o. *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA, A	BBB		BB	B, CCC, CC, C, D
Euler Hermes Rating GmbH *From entry into force to 31.12.2018*						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, SD, D
Euler Hermes Rating GmbH *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, CC, C, SD, D
FERI EuroRating Services AG						
FERI EuroRating rating scale	AAA, AA	A		BBB, BB	B	CCC, CC, D
Fitch Ratings						

Long-term issuer credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations - Long-term ratings scale	AAA AA	A	BBB	BB	B	CCC, CC, C
Long-term international IFS ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Short-term rating scale	F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS ratings scale	F1+	F1	F2, F3	B, C		
GBB-Rating Gesellschaft fuer Bonitaets-beurteilung GmbH *From entry into force to 31.12.2018*						
Global long-term rating scale	AAA, AA		A, BBB	BB	B	CCC, CC, C, D
GBB-Rating Gesellschaft fuer Bonitaets-beurteilung GmbH *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA	A, BBB	BB	B	CCC, CC, C, D
ICAP Group S.A						
Global long-term rating scale		AA, A	BB, B	C, D	E, F	G, H
Japan Credit Rating Agency Ltd						
Long-term issuer ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, LD, D

Long-term issue ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer ratings scale	J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit ratings scale	J-1+	J-1	J-2	J-3, NJ, D		
Kroll Bond Rating Agency *From entry into force to 31.12.2018*						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	K1+	K1	K2, K3	B, C, D		
Kroll Bond Rating Agency *From 01.01.2019 onwards*						
Long-term credit rating scale		AAA, AA, A	BBB		BB	B, CCC, CC, C, D
Short-term credit rating scale		K1+, K1	K2, K3	B, C, D		
Moody's Investors Service						
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Bond fund rating scale	Aaa-bf, Aa-bf	A-bf	Baa-bf	Ba-bf	B-bf	Caa-bf, Ca-bf, C-bf
Global short-term rating scale	P-1	P-2	P-3	NP		
Standard & Poor's Ratings Services						

Long-term issuer credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Insurer financial strength ratings scale	AAA, AA	A	BBB	BB	B	CCC, CC, SD/D, R
Fund credit quality ratings scale	AAAf, AAf	Af	BBBf	BBf	Bf	CCCf
Mid Market Evaluation ratings scale		MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit ratings scale	A-1+	A-1	A-2, A-3	B, C, R, SD/D		
Short-term issue credit ratings scale	A-1+	A-1	A-2, A-3	B, C, D		
Scope Ratings AG *From entry into force to 31.12.2018*						
Global long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC,C, D
Global short-term rating scale	S-1+	S-1	S-2	S-3, S-4		
Scope Ratings AG *From 01.01.2019 onwards*						
Global long-term rating scale		AAA, AA, A	BBB	BB	B	CCC, CC,C, D
Global short-term rating scale		S-1+, S-1	S-2	S-3, S-4		

Spread Research *From entry into force to 31.12.2018*						
International long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Spread Research *From 01.01.2019 onwards*						
International long-term rating scale		AAA, AA, A	BBB		BB	B, CCC, CC, C, D
The Economist Intelligence Unit Ltd						
Sovereign rating band scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D

4. Accompanying documents

4.1 Cost-Benefit Analysis/Impact Assessment

Problem definition

The CRD permits the use of external ratings for determining the own fund requirements where credit risk is less material, such as the case of less sophisticated institutions, insignificant exposure classes or the unduly burdensome implementation of internal approaches. To make it possible, a correspondence ('mapping') between the credit assessments of an ECAI and the credit quality steps of the Standardised Approach set out in the CRR needs to be established.

In order to reduce the foreclosure of a market already dominated by three undertakings, Article 4(98) of the CRR automatically recognises credit rating agencies registered or certified in accordance with Regulation (EC) No 1060/2009 as ECAIs. This means that 'mappings' should be made available for all existing credit rating agencies that conduct their activities in accordance with the principles of integrity, transparency, responsibility and good governance set out in that Regulation. As an exception, 'mappings' should also be made available for central banks producing ratings that are not subject to that Regulation.

Objectives

To promote consistency in the way that the 'mappings' are determined, the Council and the European Parliament mandated the Joint Committee to draft the quantitative and qualitative factors that should be considered to differentiate between the relative degrees of risk expressed by each credit assessment of a particular ECAI, as well as the benchmarks against which these factors should be compared. Additionally, the Council and the European Parliament mandated the Joint Committee to specify the 'mappings' for all ECAIs in accordance with Article 136 of the CRR.

These ITS will contribute to a common understanding among institutions and the EU's national competent authorities about the methodology that the Joint Committee should use to specify the 'mappings'. Given that the mappings of any ECAI will be equally applicable in all EU Member States, these ITS will also contribute to ensuring a high level of harmonisation and consistent practice in this area and to achieving the objectives in the CRR of enhancing the risk sensitivity of the credit risk rules.

Finally, the analysis performed to arrive at each individual mapping and its regular monitoring over time should mitigate any mechanistic overreliance of the credit risk rules on external ratings. This is one of the objectives of the CRD derived from the G-20 conclusions and the FSB principles for reducing reliance on external credit ratings.

Technical options considered

This section explains the rationale behind the most relevant choices that the Joint Committee has made when designing the ITS proposals.

Quantitative factors

Selection of the default rate. Among the factors considered to measure the degree of risk underlying the credit assessment of an ECAI, traditional risk metrics such as the default rate and the loss upon default rate have been considered.

In order to decide between the two metrics, factors such as the availability of information, consistency with the definition of the credit assessment and continuity with the previous regulatory framework have been considered. Regarding the availability of information to measure them, the default rate is a better option. Whereas all ECAIs record information about their defaulted rated entities (e.g. for back-testing purposes), they usually do not keep a database of the effective losses borne by investors in defaulted instruments. Regarding the definition of the credit assessments, most ECAIs provide opinions on the ability of the rated entity to meet the financial obligations derived from the instrument. Losses upon default are usually excluded from such credit opinion. Finally, the Basel text that served as a basis both for the previous regulatory framework (Directive 2006/48/EC) and the CRD IV/CRR is based on the default rate, which should help to ensure a smooth transition to the rules derived from these draft ITS.

Long-run and short-run default rates. Both short-run and long-run default rates have been proposed to characterise the level of risk underlying each credit assessment. Each one has a specific role and therefore both of them are necessary. The long-run default rate of a credit assessment should provide the basis of the mapping proposal under the quantitative framework. This role cannot be played by the short-run default rate because it may be affected by temporary shocks that do not reflect the true underlying level of risk of the credit assessment and/or induce cyclicality in the capital requirement. Instead, the role of the short-run default rate of a credit assessment should be to provide an early warning of a weakening of the assessment standards of the ECAI that might be affecting the level of risk of the items currently assigned to that credit assessment.

The exclusion of either of these two metrics would not allow a complete characterisation of the level of risk underlying a credit assessment and therefore both have been included in these draft ITS. The choice of the long-run default rate is consistent with the Basel text.

When default data are not sufficient, Article 136(2) of the CRR establishes that the ECAI should be consulted on the long-run default rate associated with a credit assessment. Such an estimate of the default rate provided by the ECAI should be addressed with an appropriate degree of careful consideration in order to reflect the implicit uncertainty. This principle, directly applicable in the quantification of risk of internally rated exposures (see Article 179(1)(a) of the CRR), is considered of

equal importance in the case of the quantification of risk of externally rated exposures. Failure to do this would make it very difficult to impose a conservative mapping of credit assessments where the default data showed poor performance by the ECAI. In any case, it should be made clear that qualitative factors may challenge the mapping stemming from this conservative estimate of the long-run default rate.

Requirements for the calculation of the default rate. The default rate can be calculated in multiple ways. The options proposed in these ITS reflect the criteria that are of interest from a prudential perspective, as explained in the paragraphs below.

It is proposed that the time horizon of the default rate be equal to 3 years. From a practical perspective, this allows the observation of a larger number of defaults in low-risk credit assessments. A 1-year horizon would hardly allow the observation of defaults in these categories and therefore would be less useful for the purpose of the mapping. From a prudential perspective, it reflects a reasonable period of time during which credit losses would be borne given the illiquidity of many credit assets to which the external rating would apply (e.g. bank loans). If a 1-year horizon were chosen, the potential for future downgrades should, in any case, be taken into account to ensure that the appropriate amount of capital is set aside. Finally, the calculation of default rates over a 3-year horizon reduces the range of values in the case of dynamic rating systems which mitigate the cyclicality of the capital requirement.

It is proposed that the size of the pool of rated items be sufficiently large. It has not been possible to specify a strict rule because the risk profile of the credit assessment, which should be part of such rule, is not known *a priori*. Therefore, a less strict rule is proposed based on the perceived risk profile of the credit assessment so that the required size of the pool is larger for low-risk credit assessments. More specifically, it is proposed that the size of a pool be considered sufficiently large if it is at least equal to the inverse of the 'expected' long-run default rate. For example, where the 'expected' long-run default rate is 1%, each historical pool should contain at least 100 rated items. This requirement should provide the necessary degree of comfort regarding the certainty surrounding the default rates used for the mapping.

The contribution of withdrawn ratings is also addressed in these ITS. It is acknowledged that they provide some evidence of the default behaviour of a credit assessment. However, such evidence should be less conclusive than the case of credit assessments that have been observed for the whole 3-year period because it cannot be guaranteed that a default has not taken place after withdrawal. In order not to affect those rating businesses where withdrawals are more frequently observed, no weighting is applied as long as the default behaviour has been observed after the credit assessment has been withdrawn (so that a complete 3-year horizon has been covered).

Finally, the required types of default events are essentially the ones considered in the calibration of the benchmark values, which are based on the Basel text in order to ensure continuity with the mappings produced under the previous regulatory framework (Directive 2006/48/EC). A different choice of default events might have led to a different overall level of capital for externally rated

exposures and would have also been difficult to observe by ECAIs since they typically have no access to this information. This would have been the case, for example, with the default definition stated in Article 178 of the CRR.

Not all the requirements regarding the calculation of the default rate specified in these ITS were contained in the previous regulatory framework. The reason for such a prescriptive approach is the reduction in the number of differences in default rates stemming from purely methodological aspects. The consequence should be that only different true underlying risk profiles are responsible for any observed difference in the default rates of the ECAIs.

Qualitative factors

Definition of default. The definition of default is a key element of the mapping process, especially where sufficiently numerous default data are available. Any difference in the level of strictness of an ECAI's default definition with respect to other ECAIs has a large potential to affect the level playing field since the respective mappings would not have been done under similar terms. Therefore the comparability of an ECAI's definition of default should be assessed.

These ITS propose that the comparison be based on the bankruptcy (and similar legal proceedings) rate. This information is generally available to all ECAIs and can be used to characterise the degree of strictness of a default definition as the increase in the number of default events in comparison with respect to the number of observed bankruptcies. Any other comparison based on a set of default events that are not generally observed for most ECAIs would be very difficult to implement and the degree of uncertainty implied in the comparison would be very large.

Time horizon of the credit assessment. The choice of the 3-year horizon to calculate the default rate implies that the risk reflected in any credit assessment should, at least, cover this period. Therefore, a qualitative factor should be applied every time the credit assessment is based on a shorter time horizon and the default rate is not available. Failure to do so would increase the potential for capital underestimation. For example, in the case of a rating system that only focuses on the forthcoming 12 months, if downgrades were expected during the second and third years, this should be considered in order to assess the level of risk that is relevant for the mapping.

Creditworthiness of items assigned the same rating category. The calculation of default rates is considered a key step of the mapping process because it contributes to the objectivity and consistency of the process, as required by Article 136(1) of the CRR. Thus, these draft ITS propose that all available information be used to calculate a proxy for the default rate for a rating category where scarce default data are available. This may be obtained through the use of different measures of creditworthiness (such as external ratings of other ECAIs or credit scores produced by the ECAI itself) assigned to items of the same rating category. However such alternative default experience is not considered to be as reliable and relevant as the default information from rated items, so that it has to be carefully analysed before its application for the purposes of the mapping exercise.

Estimate provided by the ECAI of the long-run default rate. In order to ensure objectivity and consistency in the mapping process, the default rate should be calculated for any credit assessment. Where sufficient default data are not available, the estimate of the default rate is subject to a higher degree of uncertainty even if it has been produced by the ECAI itself. This may directly affect the consistency and objectivity of the mapping. Therefore, it is proposed that this estimate be taken into account with an appropriate degree of careful consideration to reflect the implicit uncertainty.

Relationship between the credit assessments of an ECAI. The CRR stipulates that a mapping should be established for all relevant credit assessments. This means that all exposures for which the CRR requires the calculation of capital to be based on external ratings should be mapped to the relevant credit quality steps. In many cases, the main rating scale of the ECAI will cover most of these exposures. For example, a credit assessment by an ECAI will typically have the same meaning whether it refers to corporate, sovereign or institutions' exposures and therefore it should be mapped to the same credit quality step.

However, the credit assessments of certain exposures have different meanings and therefore need separate mappings. This is the case, for example, for short-term credit assessments and credit assessments available for CIUs. In these cases, the internal relationship established by the ECAI between such credit assessments and the main rating scale should provide the basis for the mapping of the former, as long as the mapping of the latter is already known.

Alternatively, a different set of benchmarks could be proposed for these other credit assessments (i.e. short term, CIUs etc.). However, it has been considered that the mappings of a single ECAI would be more consistent if they were based instead on the internal relationship described in the previous paragraph.

Benchmarks

The benchmarks proposed under this Regulation have been chosen to maintain the overall level of capital required to externally rated exposures under the Standardised Approach. Whereas the CRD IV and CRR have increased the overall level of capital required for credit institutions and investment firms by different means, there is no reason to indirectly modify the overall level of the risk weights specified under the Standardised Approach. Therefore, the same values as contained in the Basel II text are proposed under this Regulation.

Benchmark for the long-run default rate. The benchmark for the long-run default rate has been further specified under this Regulation with respect to the one contained in the Basel II text. The Basel benchmark consists of only a point long-run default rate. However, it has been acknowledged that a wider range of values can be compatible with each credit quality step. Under one option, the Basel values have been considered as potential upper bounds of such ranges. A preliminary comparison of the new mappings with the ones existing under the previous regulatory framework has indicated that a significant number of changes would have taken place, which contradicts the objective stated in the previous paragraph.

As second option, the upper bounds of the long-run default rate reflect the values beyond which the Basel benchmark of the next less favourable credit quality step (CQS) is more likely to be the true underlying default probability. For example, it is more likely that a 0.16% default rate comes from a pool of items whose true default probability is equal to 0.10% (Basel long-run reference of CQS1) rather than 0.25% (Basel long-run reference of CQS2). Similarly, it is more likely that a 0.17% default rate comes from a pool of items whose true default probability is equal to 0.25% (Basel long-run reference of CQS2) rather than 0.10% (Basel long-run reference of CQS1)[1].

This result has been modified for CQS3 and CQS4, where a lower threshold has been chosen instead, namely the short-run benchmark. The reason is that it would have been very difficult to justify that a credit assessment for which the long-run default rate is higher than the short-run benchmark only breaches the monitoring level in the short-run on a temporary basis.

In addition to the reasons provided above, the framework described in the Basel II text is very much dependent on the observed variation of default rates of the international ECAIs operating at the time it was designed. The current market situation reflects a wide range of business models and methodologies among ECAIs that lead to very different degrees of cyclical variation in the observed default rates. For instance, depending on the country of residence of the rated entities or the rating philosophy of the ECAI, the cyclical variation of a default rate could hardly be appreciated. To better assess these situations, the long-run default rate has been further specified as described above.

Benchmark for the short-run default rate. The short-run benchmarks remain the same as the Basel II text. They should continue to indicate a weakening of assessment standards by the ECAI, leading to the credit quality of the credit assessment worsening.

Impact of the proposals

The use of external ratings for capital requirements under the Standardised Approach is not new in the prudential regulation of credit institutions. However, the fact that the mappings have to be reviewed (or newly provided in the case of some ECAIs) means that the two main types of stakeholders are directly affected.

On the one hand, credit institutions subject to the CRR will be affected by the mappings established according to these draft ITS. Since the mappings constitute an element of the calculation of capital requirements under the Standardised Approach, the main impact of this Regulation on credit institutions will be regarding the actual level of capital that they are required to hold for externally rated positions.

[1] The default rate has been assumed to be binomially distributed independent of defaults. If correlation were introduced, the resulting thresholds would be lower than the ones proposed in the ITS, which would increase the overall level of the risk weights.

On the other hand, ECAIs, as defined in Article 4(98) of the CRR, will also be impacted by these proposals, given that they will have to provide all necessary information for the mappings to be completed. In this case, the direct costs derived from this situation will represent the main impact of these draft ITS.

Direct compliance costs

The costs derived from compliance with this Regulation are largely borne by credit rating agencies for which a mapping has to be provided. When assessing the level of risk behind each credit assessment, the corresponding ECAI is best placed to provide all necessary relevant information, therefore ECAIs bear the main costs of compliance with these draft ITS. For this reason, the Joint Committee has made all efforts to limit the burden on the ECAIs as much as possible. For example, the calculation of quantitative factors for those ECAIs that have sufficient default data in CEREP (ESMA's central repository of credit ratings) has been carried out centrally by the Joint Committee.

However, it is acknowledged that smaller ECAIs, where the amount of default information is scarce, might be required to make use of any type of default evidence that could help to quantify the level of risk behind their rating categories. Also in this case, the Joint Committee has tried to limit the burden as much as possible, in that CEREP has been used whenever possible to capture any default evidence that could be employed for the purpose of the mapping. Using exclusively the data coming from CEREP for the calculation of the quantitative factors is also a key objective for the review of the mappings, as well as for the introduction of the new ones. This would be a key achievement considering also the reliability of the data used for regulatory purposes, which would be ensured by using the central repository of credit ratings managed by ESMA.

For credit institutions, the costs of complying with this Regulation are negligible since the individual mapping tables for each ECAI will be made publicly available and can be easily incorporated into the calculation process for capital requirements.

Indirect capital costs

The costs, defined in terms of capital requirements under the Standardised Approach, derived from the specification of new individual mapping tables will be entirely met by the credit institutions.

In order to simulate the impact of the mappings proposed in these draft ITS, it has been assumed that the pool of firms rated by an ECAI on 1 January 2013[2] represents a banking portfolio (where data for 1 January are not available, the most recent date with sufficient information has been chosen). Only in the case of ECAIs that use point in time methodologies different dates have been used to estimate the implicit cyclicality of capital requirements. For materiality reasons, the impact

[2] Consistent with the information base used to produce the mappings, the data used in this context are the same that have been employed for the documents published for the consultation to these draft ITS.

assessment has been conducted only for ECAIs which have assigned at least 10 long-term ratings under one specific rating scale[3].

The impact assessment has been conducted by comparing the capital requirements for the portfolio of each ECAI based on the mappings specified in Annex III of the draft ITS with either those based on the mapping determined by the relevant competent authority prior to the entry into force of these draft ITS (current mapping), where available, or otherwise with the risk weight corresponding to an unrated exposure. Given the phase-in period proposed in these draft ITS for ECAIs with limited quantitative information, some ECAIs are provided with two mappings under these draft ITS.

The main results for the ratings of ECAIs for which a current mapping is already available can be summarised as follows:

- The mapping of the S&P, Moody's, Fitch, DBRS and JCRA does not imply any changes in the assigned credit quality steps. As a result, there is no impact on the average capital requirements for the entities rated by these ECAIs.

- The mappings of ECAIs that rate a significant number of SMEs in specific EU countries (BdF, CERVED[4] and ICAP) show no difference between the capital requirements under the mappings for CERVED and ICAP, and an increase below 10% in the capital requirements in case of BdF.

- For Euler Hermes, which focuses on corporates, the proposed mapping does not have any impact on the capital requirements compared with the current mapping.

In the case of ECAIs for which a current mapping is not currently available, the impact has been assessed under the assumption that exposures are not rated, which in all cases means a flat 100% risk weight.[5] The results can be summarised as follows:

- In the case of AMBERS, this comparison shows a reduction of capital requirement from 100% to 56%, explained by the low risk profile of the pool of firms rated by this ECAI.

- In the case of ECAIs that can be considered to rate low default portfolios (EIU and Feri, which mainly rate sovereigns and GBB and Capital Intelligence which mainly rate financial Institutions), the results show that the capital requirements for their portfolios are

[3] The following ECAIs did not have sufficient ratings to conduct the IA: ARC, Assekurata, BCRA, Creditreform, Dagong, ERA, KBRA, EuroRating.

[4] Impact for CERVED was assessed based on data for 2010 specifying the recalculated credit ratings of this ECAI based on their new rating scale, introduced in 2014.

[5] This takes into account that exposures to central governments and central banks are limited to non-EU or EU denominated or funded in foreign currency, and that institutions, when unrated, do not have a rated central government of the jurisdiction where they are established (in which case they would get the rating of the central government).

significantly lower compared to the case when entities are not rated.[6] The reduction is 61% in case of EIU, 51% in case of Feri, 55% and 58% in case of GBB, 70% and 71% for Capital Intelligence (in the cases of GBB and Capital Intelligence the reduction in capital requirement depending on the applicable period of the mappings specified in Annex III of the draft ITS shows little variation). Although EIU and Feri follow a point-in time methodology, the average risk weight does not change significantly over time.

- For CRIF, Axesor and Scope, which focus on corporates, the impact is an increase of capital requirements to 109% and 112%, 127%, and 107% respectively (depending on mappings specified in Annex III of the draft ITS which are associated to two different time periods), compared to the situation when the entities are unrated.

To summarise, the mappings proposed in these draft ITS will have no impact with respect to the current mappings in the case of international ECAIs, and should lead to an increase of less than 10% in the average risk weight associated with the pools rated by BdF, with no impact for the remaining ECAIs that target significant amounts of firms in their respective domestic markets (CERVED and ICAP). For Euler Hermes, there is no impact on capital requirements. In the case of ECAIs for which no mapping is currently available, the proposed mappings will imply a significant reduction of the average risk weight associated with ECAIs that rate low default portfolios. In the case of other ECAIs (e.g. CRIF, Axesor and Scope) the capital requirements would increase because of the higher concentration of ratings in the lower grades.

Finally, for those ECAIs that have only issued a small number of ratings, and thus are not considered in the impact assessment for materiality reasons, the mappings are dependent on the applicable period to which they refer, and thus their average corresponding risk weights. In the case of the mappings applicable following the phase-in period they are generally more conservative because of the limited current availability of empirical default evidence associated with their rating categories.

[6] For the purpose of assessing the impact, only non-EU entities were included in the calculation, as the EU sovereign debt is assumed to be in domestic currency and therefore is assigned a flat risk weight of 0% in accordance with Article 114 of the CRR.

Table 1: Effect of the new mappings on the calculation of own funds requirements under the Standardised Approach

ECAI	Exposure class	Date	Average corresponding risk weight			Unrated exposure
			Mapping applicable until 31.12.2018	Mapping applicable starting from 01.01.2019	Current mapping	
S&P	Central governments or central banks	2013h1	**57%**		**57%**	
	Corporates	2013h1	**96%**		**96%**	
	Covered bonds	2013h1	**12%**		**12%**	
	Institutions	2013h1	**60%**		**60%**	
	Public sector entities (Inst)	2013h1	**40%**		**40%**	
	Public sector entities (Sov)	2013h1	**19%**		**19%**	
Moody's	Central governments or central banks	2013h1	**56%**		**56%**	
	Corporates	2013h1	**99%**		**99%**	
	Covered bonds	2013h1	**13%**		**13%**	
	Institutions	2013h1	**59%**		**59%**	
	Public sector entities (Inst)	2013h1	**32%**		**32%**	
	Public sector entities (Sov)	2013h1	**9%**		**9%**	
Fitch	Central governments or central banks	2013h1	**53%**		**53%**	
	Corporates	2013h1	**91%**		**91%**	
	Covered bonds	2013h1	**12%**		**12%**	
	Institutions	2013h1	**61%**		**61%**	
DBRS	Corporates	2013h1	**79%**		**79%**	
	Covered bonds	2013h1	**16%**		**16%**	
	Institutions	2013h1	**45%**		**45%**	
	Public sector entities	2013h1	**35%**		**35%**	

	(Inst)					
	Public sector entities (sov)	2013h1		**11%**	**11%**	
JCRA	Central governments or central banks	2013h1		**18%**	**18%**	
	Corporates	2013h1		**61%**	**61%**	
	Institutions	2013h1		**44%**	**44%**	
	Public sector entities (Inst)	2013h1		**39%**	**39%**	
	Public sector entities (sov)	2013h1		**24%**	**24%**	
BdF	Corporates	2012	**96%**	**102%**	**94%**	
	Institutions	2012	**100%**	**100%**	**100%**	
	Public sector entities (Inst)	2012	**88%**	**96%**	**86%**	
CERVED (pit)	Corporates	2010	**102%**	**102%**	**102%**	
	Corporates	2009	**103%**	**103%**	**103%**	
ICAP (pit)	Corporates	2013h1		**139%**	**139%**	
	Corporates	2012h2		**128%**	**128%**	
AMBERS	Corporates	2013h1		**56%**		**100%**
The EIU	Central governments or central banks	2013h1		**61%**		**100%**
	Central governments or central banks	2009h1		**65%**		**100%**
	Central governments or central banks	2006h2		**68%**		**100%**
Feri	Central governments or central banks	2013h1		**51%**		**100%**
	Central governments or central banks	2009h1		**46%**		**100%**
	Central governments or central banks	2005h1		**42%**		**100%**
GBB	Institutions	2013h1	**55%**	**58%**		**100%**
Capital Intelligence	Central governments or central banks	2013h1	**49%**	**56%**		**100%**
	Institutions	2013h1	**70%**	**71%**		**100%**

CRIF	Corporates	2013h1	**109%**	**112%**		**100%**
Axesor	Corporates	2013h1	**127%**	**127%**		**100%**
Scope	Corporates	2013	**107%**	**107%**		**100%**
Euler Hermes	Corporates	2013h1	**86%**	**86%**	**86%**	

Benefits

The methodology presented in these draft ITS will ensure complete harmonisation of the mapping of credit assessments to the corresponding credit quality steps across Member States. This will allow the calculation of capital requirements for externally rated exposures under the Standardised Approach to be the same across all institutions within the EU, which should be the main feature of that approach.

Also, as suggested above, the analysis performed to arrive at each individual mapping and its regular monitoring over time should mitigate any mechanistic overreliance of the credit risk rules on external ratings, which is one of the objectives of the CRD derived from the G-20 conclusions and the FSB principles for reducing reliance on external credit ratings.

4.2 Views of the Banking Stakeholder Group (BSG)

This section sets out the BSG's comments on the draft Implementing Technical Standard (ITS) on the mapping of ECAIs' credit assessment under Article 136(1) and (3) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) (JC/CP/2014/01).

Note: all references to the legal text refer to the version of the ITS subject to consultation.

General comments

Notwithstanding general reliance on credit rating agencies in regulatory matters should be tuned down in accordance with recent amendments of CRA Regulation, the BSG appreciates the steps taken to open the European market for more credit rating agencies in addition to the three main incumbents. The comparison and the mapping of the ratings are of crucial importance in the process to provide help not only to the institutions which use the external credit ratings for their own capital adequacy calculation and/or in their credit processes, but also for investors in securities in making their investment decisions.

The BSG notes that small institutions which generally do not have sufficient data or expertise to develop an expected loss model will use the standardised approach and the assessment of the ECAIs in the longer term. Therefore the ITS will not only be applied by institutions where the credit risk is less material, but also by small credit institutions where credit risk is normally the most important risk type.

The BSG indicates that the mapping of rating assessments to credit quality steps must mirror the real differences in risk as measured by the differences in observed default rates by rating category over a long period of time. The provisions made in the ITS for later adjustments of rating assessments to credit quality steps due to changes in default rates of different rating assessment categories must also be related to this principle.

The BSG suggests that the differences in risk, as expressed by default rates and as represented by ECAI ratings, should be mirrored and be comparable to differences in risks in the credit quality steps, and subsequently in the risk weights applied, taking into account the given number of credit quality steps. The BSG has asked to spell out this principle more clearly in the proposed regulation.

The BSG indicates how in several Member States, which formerly opted for the central government based method to determine the risk weights for institutions and regional governments, the importance of the credit assessments of the nominated ECAIs has been increased by the CRR. Now Member States are applying the risk weights of exposures to rated institutions and regional authorities as determined by their external ratings by the relevant ECAIs and are applying mapping of those rating categories to the credit quality steps. The BSG notices that as a result of these changes, the quantity of the overall capital requirement under the CRR for rated items has already been

adjusted in the Member States which formerly opted for the central government based methods, so that the maintenance of the overall level of capital cannot be a very important element in the mapping decision.

The BSG suggests that in its view, the use of the external credit assessments in determining credit quality steps should require not only the transparency of the mapping methodology and the disclosure of the final result of the mapping, but also that the main drivers of the mapping process and relevant decisions (e.g. the default rates for the different ECAIs credit assessment categories) should be published.

According to the BSG, the transparency of the mapping decisions is a core issue also in highlighting the relationship between the long-term and short-term ratings. The BSG indicates that neither Annex 2 of the Basel II framework, nor the present proposed draft ITS, reveal the mapping of short-term credit assessments to credit quality steps. While the BSG considers the internal relationship between long-term and short-term ratings established by the ECAI to be important, it believes that other factors should also be considered for the mapping of short-term and other credit assessments, such as those for the CIUs. To this end the BSG suggests that the mapping methodology and the concrete mappings of the short-term ratings should be basically treated in the same way as the long-term credit assessment, including the description of the methodology and also the disclosure of the concrete mapping decisions.

Providing clear evidence with an annex, the BSG stresses that the mapping process should be designed in such a way as to avoid the possibility that some credit quality steps in the short-term assessments are mapped to higher risk weights than long-term credit assessments. In the annex, the BSG notes that this has happened in the past. In general, institutions, regional authorities and companies are rarely rated better than the sovereign issuer in which they are registered.

The BSG, though aware that the number of the CQSs is determined by the CRR, believes that in general from the CQS 2 there are too few credit quality steps compared to the default experience observed at the ECAIs. This fact also makes it more difficult to make a fair differentiation of risk weighting reflecting the differentiation in the risk assessments of the ECAIs.

The BSG requests clarifications regarding recital 16 of draft ITS, and on the practical application and resulting effects on the mapping related to the defined "long-run benchmarks" and "short-run benchmark" as applied in the proposed ITS.

Finally, according to the BSG it would be useful if some parts of the explanatory texts for consultation which increase the transparency of the mapping methodology were included in the text of the ITS.

Answers to Questions

Question 1. *Do you agree with the proposed selection of quantitative factors to differentiate between the different levels of risk in each rating category?*

The BSG agrees that the short-run default rates should be measured over a 3-year time horizon, and also that where there is evidence that an item or an entity has ceased to be rated in the 3 year time horizon prior to default, that must be considered as a defaulted item.

However, according to the BSG it is too conservative to assume that all the items withdrawn prior to the time horizon should be treated by 50%, and it is suggests to apply a more sophisticated approach for the treatment of those companies which have been rated at the beginning of the time horizon, but are not present in the pool at the end of the time horizon.

Clarifications have been requested whether the short-run default rates would serve as a starting point for mapping the short-term ratings to the credit quality steps for the exposure class 'exposures to institutions and corporates with a short term credit assessment".

It has been commented that the short-run default rates should apply to adjustments of allocation of ratings to the credit quality steps not only reflecting increases in risks, but also reductions.

To the BSG it seems strange that in the definition of default are included items which have not caused any materialised financial loss to the holder of the asset. In BSG view, the disbursement delay should be concretely defined and the distressed exchange should be more precisely described. The BSG points out that it is not clear how the ECAIs or regulators should obtain the necessary information. According to the BSG, only defaulting items causing realised financial losses and not expected losses should be included. If not, an expected default not materialising should count positively in the next round of evaluation, which again does not seem right for evaluating the real assessment and evolution of risk.

Question 2. *Do you agree with the proposed definition of sufficient for the number of credit ratings and the rest of the requirements imposed for the calculation of the short run default rate when a sufficient number of credit ratings is available?*

The BSG suggests that as the number of the credit assessments can have an influence on the default rates, both the default rates and the number of the ratings used to define the default rates should be published as part of the mapping decision.

Question 3. *Do you agree with the proposed requirements imposed for the calculation of the long-run default rate when a sufficient number of credit ratings is available?*

The BSG does agree with this question, nonetheless requires clarification on what the reference periods are for the estimated default rates, where less than 20 but at least 10 short run default rates, can be calculated. If they relate to the period prior to the one of the observed default rates, it is not clear why the figures for the most recent period are used for weighting the estimated rates.

The BSG suggests that the definition of the initial long-run default rate could be more precise and direct. The assignment of both short-term and long-term ratings to the credit quality steps must initially be based on observations of default rates for a long time horizon.

Finally it is required clarification on the reference to the most recent recessionary period in Article 4(4) of the draft ITS.

Question 4. *Do you agree with the proposed options to calculate the quantitative factors when a sufficient number of credit ratings is not available?*

The BSG agrees with the approach in cases where a sufficient number of credit ratings is not available, but where a sufficient number of items assigned a different measure of creditworthiness is available.

However the BSG requests clarification about the assessment of the long-term default rate regulated in Article 7 draft ITS where there is neither a sufficient number of credit ratings nor a sufficient number of items assigned a different measure of creditworthiness. The BSG believes that although the implicit uncertainty in these cases is quite high, as a starting point it could be acceptable to use estimates provided by the ECAI of the long-run default rate, but the adjustment should be much more comprehensive and include other factors in addition to the method presented in the draft ITS.

Question 5. *Do you agree with the proposed use of the default definition used by the ECAI as a relevant factor for the mapping? Do you agree with the proposed assessment of the comparability of the default definition of an ECAI? If not, what alternatives would you propose? Do you think that the adjustment factor depends on certain characteristics of the rated firms such as size and credit quality and if so, how can this be reflected?*

The BSG agrees that the definition of default must be an important, if not the most important, qualitative factor in the mapping process.

However it is suggested that the definition of default has to be as near as possible to the definition of default in Article 178 of the CRR. In the BSG's view, the methodology applied to how the default rates are adjusted should be included in the text.

Question 6. *Do you agree with the proposed use of the time horizon of the rating category as a relevant factor for the mapping? Do you agree with the proposed use of transition probabilities to identify the expected level of risk during the three-year horizon?*

The BSG does agree with it.

Question 7. *Do you agree with the proposed use of the range and meaning of credit assessments as a relevant factor for the mapping? Do you agree with the proposed restriction of this factor to adjacent rating categories?*

The BSG believes that the usefulness of the meaning of credit assessment depends to a great extent on the number of the rating categories and whether or not the meaning of the credit assessments is well explained. While the BSG fully agrees that the mapping of one rating category to a credit quality step should not be the basis of mapping all the rating categories of that specific ECAI to the credit

quality steps, it believes that the restriction to use this factor only for mapping the adjacent categories might prove too restrictive when the number of rating categories is much more than the number of the credit quality steps.

Question 8. *Do you agree with the proposed use of the risk profile of a credit assessment as a relevant factor for the mapping?*

The BSG in general does agree that the risk profile should be considered in the mapping process, however, it is unsure whether the size without the diversification of activities and counterparties (suppliers, buyers) would alone be a factor which should drive to a lower risk weight.

It is underlined that most well-run companies are not opting for the highest possible credit rating. A high rating can limit the capacity to raise external loan funding, due to ECAI's rating benchmarks, and therefore limit the capacity to grow. A rating in the mid-range of investment grade is normally the rating ambition which normally seems to benefit the company for securing future generation of cash flow, thereby servicing their shareholders, bondholders and lenders in the most optimal way.

Question 9. *Do you agree with the proposed use of the estimate provided by the ECAI for the long-run default rate associated with all items assigned the same rating category as a relevant factor for the mapping? Do you agree with the proposed role played by this factor depending on the availability of default data for the rating category?*

The BSG believes that the draft text on the use of the estimate provided by the ECAI is too general. Clarification is requested about when and how the estimates would be used, and what the 'relationship' in the mapping process between the use of the estimated default rate under Article 7(2) and Article 13.

Question 10. *Do you agree with the proposed use of the internal mapping of a rating category established by the ECAI?*

The BSG does agree with it.

Question 11. *Do you agree with the proposed specification of the long-run and short-run benchmarks? Do you agree with the proposed mechanism to identify a weakening of assessment standards?*

Clarification is requested whether all the conditions, or any of the conditions, should be met in order to state the weakening of the assessment standards. Further clarifications are demanded about the practical application of the benchmarks and the implications for the mapping process in the proposed text of the ITS. It is suggested to consider the inclusion of the explanatory text in the text of the ITS.

The BSG requests better explanations about the possible joint actions of the ESAs when the latest two 3-years average default rates are higher than the monitoring level or the trigger level. Further, concerning Annex 1, BSG suggests to add that the benchmarks refer to the 3-year time horizon.

Question 12. *Do you agree with the analysis of the impact of the proposals in this CP? If not, can you provide any evidence or data that would explain why you disagree or which might further inform our analysis of the likely impacts of the proposals?*

The BSG suggests that an important impact is foreseen regarding the outcome of the mapping for the exposure class "exposures to institutions and corporates with a short term credit assessment" and for which exposures they have to be used. Unfortunately, these impacts have not been addressed in the adoption of the CRR. It is assumed that the common methodology and hopefully the disclosure of the main points in the mapping decision for an individual ECAI will facilitate the nomination of the ECAIs at the institutions using the standardised approach or relying on the ECAIs ratings for other reasons.

The BSG expects that the proposed mapping principles will contribute to a fair pricing of banking products based on a fair mapping and distribution of risk assessments made by the ECAIs to the corresponding credit quality steps and risk weights in the CRR.

4.3 Feedback on the public consultation and on the opinion of the BSG

The European Supervisory Authorities (ESAs) twice publicly consulted on the draft ITS, the first time on the draft ITS, and the second time on the addendum to the draft ITS:

- The consultation period for the draft ITS was launched on 5 February 2014 and lasted for 4.5 months, ending on 20 June 2014. A total of six responses were received including from the EBA Banking Stakeholder Group, of which five were published.
- The consultation for the addendum to the draft ITS was launched on 30 October 2014 and lasted for 1 month, ending on 30 November 2014. A total of six responses were received, of which three were published.

In addition the ESAs received, in confidence, other comments from interested stakeholders.

This paper presents a summary of the key points and other comments arising from the consultations, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

The comments received in confidence from interested stakeholders, despite being carefully considered together with those raised during the consultations to finalise these standards, are not presented in this document, given their confidential nature. In many cases several industry bodies made similar comments or the same body repeated its comments in the response to different questions. In such cases, the comments and the ESAs analysis are included in the section of this paper where the ESAs consider them most appropriate.

Changes to the draft ITS have been incorporated as a result of the responses received during the public consultations.

Summary of key issues and the ESA's response

The main points raised by the industry and by the BSG with regard to the draft ITS are as follows:

(1) **Overall mapping methodology.** Regarding the overall mapping methodology some respondents have raised concerns describing it as too prescriptive and limiting, which may ignore specificities and characteristics of certain firms, markets and sectors. For instance the strict application of short run default rates on a time horizon of 3 years and long run default rates as 10 years weighted average of short run default rates is deemed to be a restrictive approach. Although on the quantitative methodology side it has been suggested to apply more robust statistical and actuarial techniques, on the qualitative side it has been argued that not enough attention has been put in the draft ITS in order to allow for greater methodological flexibility.

(2) **Small pool methodology (SPM) and impact on competition.** Respondents claim that it is impossible for any small or newly established credit rating agency to reach the minimum number of rated items indicated by Table 1 in the addendum to the draft ITS when assigning the

mapping. The most critical number is 496, which would not allow many ECAIs to achieve CQS 1 for their best rating categories. These ECAIs believe the degree of prudence shown by the ESAs through the minimum number of required ratings hampers competition in the credit rating agencies (CRAs) market and prevents ECAIs from entering certain markets (e.g. covered bonds). In addition some respondents claim that setting a minimum number of default occurrences and equivalent rating category is not consistent with level 1 legislation which focuses on 'default rates experienced'. Some respondents suggest creating a different framework for small and newly established ECAIs (which should not be temporary), or reducing or removing the quantitative requirements outlined in Table 1 of the addendum to the draft ITS.

(3) **Definition of default and related qualitative factor adjustment.** Some respondents request more precision in the definition of default described in the draft ITS, and note that the definition is not consistent with the one present in Article 178 of the CRR. With respect to the adjustment on the default rate based on the default definition some respondents believe that it is simplistic, especially the assumption that the number of non-bankruptcy defaults is expected to be equal to the number of bankruptcy defaults.

(4) **Items assigned a different measure of creditworthiness.** Some respondents suggest through various argumentation that when an ECAI does not have sufficient own ratings for the quantitative factors computation, the use of different measures of creditworthiness (either external ratings or credit scores) assigned to items of the same rating category should not be considered as reliable as default experience of the rated items. With regard to credit scores, it has been recalled that according to the CRA Regulation they are not credit ratings, and they do not involve any analytical contribution of the credit rating analyst. With regard to external ratings, it has been commented that they imply rating methodologies to be comparable across ECAIs and that they create redundancies increasing the overall systemic risk.

(5) **50% weight for withdrawn items.** Some respondents claim that the 50% weight assigned to ratings withdrawn prior to a 3-year horizon is very strict, for various reasons. In particular, this treatment incurs additional costs for ECAIs that choose not to monitor withdrawn ratings over the 3-year period. Respondents suggest defining a more sensible methodology in order to account for withdrawn items.

(6) **Disclosure and transparency.** A number of ECAIs have asked for more transparency on the methodology of calculation of the minimum number of required ratings in order to be assigned a certain CQS as presented in Table 1 of the addendum to the draft ITS. In addition some respondents claim that the ITS should specify what the ESAs will do when a weakening of the assessment standards is identified. Furthermore, it is asked to provide details about the frequency of the periodic review of the ECAIs' mappings.

These and the other issues are addressed in detail in the table 'Summary of responses to the consultation and the ESAs' analysis' below. With respect to the above points:

(1) **Overall mapping methodology.** The mapping methodology described in the draft ITS is consistent with level 1 legislation, i.e. with Article 136 of the CRR, which indicates that a quantitative approach has to be used in combination with a qualitative approach. Responses have been reflecting opposite views, with some asking for greater flexibility, and others asking for more quantitative rigorous analysis. Given the ESAs willingness to create a level playing field across ECAIs, so that each CRA is valued according to the same criteria, greater flexibility in the methodology would lead to excessive application of expert judgement and would reduce the objectivity of the mapping tables with respect to a common standard. On the other hand a more rigorous analysis is not possible due to lack of data and diversity of credit assessment methodologies across ECAIs. The proposed mapping strikes a balance between the rigour of the quantitative factors and the flexibility of the qualitative ones. The EBA intends also to continue to provide further clarity on the mapping methodology.

(2) **Small pool methodology and impact on competition.** The ESAs note that the SPM, through the application of Table 1 of the addendum to the draft ITS has raised concerns among the industry. The ESAs believe that quantitative requirements have to be applied also in the case of ECAIs with limited data availability and there are various reasons why this should be done, including (i) the prudential goal of the mapping, (ii) the level 1 text requirement to specify both quantitative and qualitative factors for the purpose of the mapping, (iii) stability of rating assignments leading to stability of capital requirements, (iv) minimum level playing field between the Standardised Approach (SA) and Internal Ratings Based (IRB) Approach to credit risk, (v) not per se conservatism of the SPM especially considering the possibility of pooling rated items over time, (vi) lack (or at least limitation) of backtesting results of ECAIs' rating categories performance. The suggested points are explained in detail in the feedback table below.

The ESAs fully recognise the general policy objective to foster competition in the CRAs market, as expressed in the CRA Regulation and reiterated by the industry during the consultation to support the proposed amendments with respect to the SPM. The ESAs believe that over time smaller CRAs will be storing more data regarding their credit ratings and this will in turn allow them to be granted better CQSs, especially for their best rating categories. It is important to stress that the mapping has to be understood as a mapping to a regulatory scale defined for prudential purposes, and not as a mapping used in order to compare credit ratings of different ECAIs on the same rated entity. The mandate given to the ESAs in the CRR must be anchored in a prudentially sound treatment of bank exposures. In the absence of data embedding a conservative adjustment is standard practice in the prudential framework and ensures incentives for the ECAIs to provide the relevant data for the purpose of the mapping.

The ESAs however consider the concerns presented by the industry to be relevant and have amended the methodology to the extent that it does not collide with the prudential purpose of the mandate. It should be noted that while the legal mandate of the ESAs does not require the ESAs to consider the potential impact on newer entrants, the ESAs believe it is important to balance the prudential and market concerns. As a result, in such cases where there is limited quantitative information, with the view to ensuring objectivity and consistency in the mappings,

two mappings should apply: a first mapping should apply for a limited period of 3 years; thereafter another mapping should become applicable. Both mappings should take into account quantitative and qualitative factors. Compared to the second mapping the quantitative factors for deriving the first mapping should be relaxed. This would allow ECAIs which present limited quantitative information to enter the market and would positively stimulate them to collect sufficient data. The prudential incentives are thereby maintained and smaller rating agencies are incentivised to collect the necessary information.

(3) **Definition of default and related qualitative factor adjustment.** The ESAs acknowledge that the definition of default present in the draft ITS is not the one set in Article 178 of the CRR. The types of events characterising the benchmark default definition are the ones used for the calibration of the Basel II default rate benchmarks. The application of a different definition of default currently applied in the draft ITS would mean (i) non-compliance with international standards, (ii) the need for an ad-hoc computation of brand-new benchmark levels with related calibration issues (e.g. availability of specific default information), and (iii) that it cannot be ensured that the overall level of capital required to externally rated exposures remains unchanged. The ESAs are also aware that the definition of default presented in the ITS might be detailed further, however this would add further complexity, especially considering that ECAIs exhibit different definitions of default and might operate under different jurisdictions.

The factor used to adjust the default rate depending on the definition of default used by the ECAIs has been calibrated on the information employed to calibrate the benchmarks provided by Basel II. Using the respective definition of default as a basis, the number of non-bankruptcy defaults is expected to be equal to the number of bankruptcy defaults. In addition the ESAs have received evidence from Member States showing that overall the number of defaults due to bankruptcy is expected to be equal to or lower than the number of non-bankruptcy defaults. This would confirm the application of the proposed adjustment as designed.

(4) **Items assigned a different measure of creditworthiness.** The ESAs recognised the lower reliability of credit scores for the purposes of the quantitative factors computation already when producing the mapping tables proposals for the consultation period. Thus credit scores have been used as a qualitative factor rather than a quantitative factor. Also with respect to external ratings the ESAs believe they should not be treated with the same importance that is reserved to the actual default experience of the rated items. Indeed external ratings used as benchmarks (external benchmarks) might provide a robust indication under comparability of credit ratings across ECAIs, but would also lead to an increase in the overall systemic risk. Thus, the ESAs recognise and welcome the comments received during the consultation in this context. In the revised draft ITS different measures of creditworthiness are now formally moved to the qualitative factors. It must however be highlighted that although different measures of creditworthiness are likely to prove less reliable than the default experience of rated items, they are still able to reduce the degree of uncertainty regarding the default rate, especially in situations of limited data availability or when the default rate is purely based on a qualitative statement.

(5) **50% weight for withdrawn items.** If the ESAs are unable to assess whether or not a corporate has defaulted after withdrawal, this lack of in information has to be taken into account in the default rate computation, which creates the reason for the choice of a 50% weighting. The ESAs believe that there may have been some misunderstanding about the meaning of the 50% weight for withdrawn items. It has to be made clear that withdrawals enter only the default rate denominator: when a 50% weight for a withdrawn item is added to the denominator, the numerator remains untouched, meaning that this withdrawn item is not treated as defaulted. If on the contrary the item was withdrawn, and subsequently defaulted, it would enter both the denominator and the numerator with weight of 1.

(6) **Disclosure and transparency.** The Joint Committee mandate envisages the inclusion in the ITS of the quantitative and qualitative factors as well as the benchmarks for the mapping of ECAIs' credit assessments. However it does not include the explanation of how the quantitative and qualitative factors are being applied. The disclosure of the full methodology is beyond the CRR mandate. Nor does the mandate require the ESAs to specify the frequency with which the mapping exercise has to be repeated over time, or how specifically remediation actions have to be managed when a worsening of the assessment standards is identified. It must be highlighted that for reasons of transparency the EBA has already disclosed the individual ECAIs' Mapping Reports which describe how the factors were implemented for each ECAI case.

Summary of responses to the consultation and the ESA's analysis

Note: all references to the legal text refer to the version of the ITS subject to consultation

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
General comments	Two respondents claim that the approach proposed by the draft ITS is too prescriptive with little methodological flexibility, which may ignore specificities and characteristics of certain markets and sectors.	The mapping methodology described in the draft ITS is consistent with level 1 legislation, i.e. with Article 136 of the CRR, which indicates that a quantitative approach has to be used coupled with a qualitative approach. In this respect qualitative factors are of material importance when the prescriptive-based quantitative approach does not lead to satisfactory results. In addition these draft ITS aims to create a level playing field, so that each ECAI is valued according to the same criteria. Greater flexibility in the methodology and/or data provided would lead to partial judgments.	No change.
	Two respondents argue that the proposed quantitative methodology may be improved by using more robust statistical and actuarial techniques.	At the moment the limited data available used to achieve the mappings are not able to support a fully-fledged statistical analysis, given that sufficient data for more complex quantitative methodologies are available only for six ECAIs out of the 26 present in total in the draft ITS. More advanced statistical techniques may be applied in the future as soon as sufficient data becomes available. Nonetheless, the ESAs believe that the proposed quantitative methodologies are sufficiently robust to guarantee a reliable calculation of the quantitative factors in the current setting, and they are enough sophisticated also when dealing	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		with small pools of items, as is the case when applying Article 7 of the draft ITS.	
Impact on competition	Four respondents claim that the proposed mappings negatively impact competition while strengthening at the same time the current oligopolistic market: smaller ECAIs and ECAIs with little default and rating history are not going to be assigned CQS1. The current methodology also impacts credit rating agencies (CRAs) focusing in emerging markets or on specific asset classes (e.g. covered bonds), and new CRAs that wish to enter the market.	Concerning the market competition, ESAs believe that over time smaller CRAs will be storing more data regarding their credit ratings and this will in turn allow them to be granted better CQSs, especially for their best rating categories. It is important to stress that the mapping has to be understood as a mapping to a regulatory scale defined for prudential purposes, and not as a mapping used in order to compare credit ratings of different ECAIs on the same rated entity. From a prudential perspective assigning more favourable CQSs to CRAs that have not provided clear historical evidence of the reliability of their credit assessments should not be applied. In the absence of data embedding a conservative adjustment is standard practice in the prudential framework and ensures incentives for the ECAIs to provide the relevant data for the purpose of the mapping. The ESAs consider however necessary to avoid causing undue material disadvantage to those ECAIs – to the extent it does not contradict the prudential purpose of the mapping – which, due to their more recent entry to the market, present limited quantitative information. In this regard in such cases where there is limited quantitative information, with the view to	The final draft ITS propose, for small and newly established ECAIs which present limited quantitative information, the application of a phase-in period of 3 years in which relaxed quantitative requirements for the calculation of the mappings are employed.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		ensuring objectivity and consistency in the mappings, two mappings should apply: a first mapping should apply for a limited period of 3 years; thereafter another mapping should become applicable. Both mappings should take into account quantitative and qualitative factors. Compared to the second mapping the quantitative factors for deriving the first mapping should be relaxed. A subsequent review of the ESAs in 2018 will ensure that those entrants, that will have collected information, can maintain the current mapping – should the quantitative analysis support such result.	
Framework for newly established CRAs	Three respondents suggest that a different treatment in the mapping process should be applied for smaller and newly established ECAIs, claiming that this is also consistent with level 1 legislation.	The ESAs have carefully analysed the proposal to consider a different framework for small or newly established ECAIs, or for ECAIs not able to provide enough data. Creating two different methodologies for the mapping exercise would in turn create two distinct non-homogeneous and non-comparable environments. The ESAs note that the CRA I Regulation (i.e. Regulation (EC) No 1060/2009) in recital 38 stresses that 'The credit rating agency should ensure that the information on historical default rates of its rating categories is verifiable and quantifiable'. These references create further grounds to consider the application of a solely qualitative-based methodology for small or newly established ECAIs unjustified. In addition the level 1 text requires the specification of both quantitative and qualitative factors for the	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		purpose of the mapping exercise. Given the intention to create a level playing field among ECAIs, with a regulatory prudential perspective, the ESAs deem such proposal not applicable.	
Financial instruments	One respondent believes that in the case of financial instruments, the mapping should incorporate the level of severity in the quantitative analysis. This approach would reflect realised losses in cases where the associated issuer defaults.	In the paragraph 'Technical options considered' of the 'Accompanying documents' section of these ITS it is shown that also other quantitative measures have been taken into account when drafting the ITS. For instance the loss given default metric has been taken as a proposal, yet ECAIs do not usually keep a database of the effective losses borne by investors in defaulted instruments.	No change.
Quantitative versus qualitative approach	Two respondents believe that more importance should be given to qualitative factors and a more judgemental-based approach may be more appropriate.	The quantitative approach is used coupled with a qualitative approach, so the ITS does not limit quantitatively the drivers to be considered in the mapping process. Indeed qualitative factors used in the process are detailed in Article 8 of the draft ITS. As a first step a quantitative methodology has been envisaged in order to comply with the approach indicated by international standards (Annex 2 of the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006). In a second step more judgmental qualitative factors are then used. To be noted, qualitative factors are given more	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		weight in the mappings where sufficient quantitative factors are not available. It should also be noted, that a quantitative approach will create more clarity for the industry on the methodology and the requirements needed to obtain a given mapping.	
Q1. Do you agree with the proposed selection of quantitative factors to differentiate between the different levels of risk of each rating category?			
Q1 / Article 1 – SRDR and LRDR quantitative factors	Two respondents are concerned about the use of the short run default rate (SRDR) and long run default rate (LRDR), both when mapping short term ratings and when accounting for pro-cyclical adjustments and macro prudential factors.	The ESAs would like to make it clear that the short run default rates are used either to achieve the long run default rate through their weighted average or in order to signal a weakening of the assessment standards. When mapping short term ratings to CQSs the comparability of their time horizon with the 3 year time horizon of the SRDR is taken into account, in that the internal relationship provided by the ECAIs among their ratings scales is the most important factor for performing their mapping. It should indeed be noted that the Basel text does not provide benchmarks for	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		short term ratings. Pro-cyclicality adjustments and macro prudential factors are envisaged in the methodology through the weighted average across a significant time period.	
Q1 / Recital (12) - SRDR Quantitative Factor	Two respondents argue that the SRDR should be used also to reflect a decreasing level of risk over time and not only an increase in the level of risk as reported in recital 12 of the draft ITS.	The ESAs acknowledge that the SRDR may also convey a decrease in the level of risk as soon as it decreases.	An amendment has been made as suggested.
Q2. Do you agree with the proposed definition of sufficient number of credit ratings and rest of requirements imposed to the calculation of the short run default rate when a sufficient number of credit ratings is available?			
Q2 / Article 2	One respondent believes that in point (a) of Article 2 of the draft ITS the items should not be limited to 'Corporates'.	With regard to point (a) of Article 2 of the draft ITS, all possible items were initially considered for the calculation of default rates, as the mapping applies to the following exposure classes: governments and central banks, regional and local authorities, PSEs, institutions,	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		corporate, covered bonds, CIUs: - A credit assessment by an ECAI will typically have the same meaning whether it refers to corporate (please note that "corporate ratings" as specified in Article 3 of Commission Delegated Regulation (EU) No 448/2012 include also credit ratings on institutions), sovereign or public finance exposures and therefore the mapping can be done for corporate ratings and then subsequently other credit assessments of the same rating scale should be mapped to the same credit quality steps. Moreover exposures on sovereigns and public finance items represent low default portfolios, and estimating the default rate based on these data may not be robust, leading to underestimation of risk. If in some cases the credit assessments of certain exposures have different meanings and therefore need separate mappings, a separate mapping has been applied. In these cases however the limited data can also play a role and lead to a less favourable mapping. - In the case of CIUs it might be difficult to have access to the information concerning the composition of their	

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		underlying portfolio. Given that under these ITS only fixed-income CIUs have to be covered this represents a restriction on their possible inclusion. - In the case of covered bonds, calculation of the default rate may lead to results biased towards issuers with more covered bond issues. As one issuer will default, all its issues will default as well, and therefore this will also not provide a meaningful measure of the default rate.	
	One respondent asked to clarify whether point (c) of Article 2 of the draft ITS implies that issues with a maturity below 3 years are excluded from the calibration of the default rates or that for issues with a maturity of more than 3 years revaluation over a period of 3 years is regarded as irrelevant.	With regard to point (c), the words 'allow for calculation of both the short run and long run default rates as set out in Articles 3 and 4' mean that the ratings should fulfil all the requirements set in the mentioned Articles. In particular, referring to the example provided by the respondent, it has to be clarified that for the purpose of mapping, only issuer ratings are used, and not issue ratings, in order to avoid biasing the results towards issuers with a higher number of issues. Therefore the examples provided by the respondent do not apply. Rather the rated issuer is expected to be monitored for at least 3 years, even after the withdrawal of its rating to detect if a default occurs for validation purposes. If the issuer changes credit rating during the 3-year time period, this is regarded as irrelevant for the	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		purpose of the calculation of the default rate.	
Q2 / Article 3(1)	One respondent argues that the **reference to Article 2 in Article 3(1) of the draft ITS should be clarified**, as it implies that Article 2 refers to the minimum number of sufficient credit ratings, when in fact the Article does not explain what a sufficient number of credit ratings is, and the explanation of sufficient items comes later in the following articles.	The reference to Article 2 refers to the credit ratings that are available that are in compliance with Article 2, rather than sufficient number. The definition of minimum number of credit ratings is indeed provided only in the explanatory text of the draft ITS. The ESAs acknowledge however that the structure of the draft ITS in those Articles is somewhat intricate, thus amendments have been proposed.	The final draft ITS have been drafted in a way that addresses the comment raised.
Q2 / Article 3(2) – 3Y short run default rate	One respondent suggests to use a SRDR based on a **1-year time horizon** instead of the 3-year time horizon present in the draft ITS. On the contrary another respondent proposes using a period greater than 3 years when assessing low risk rating categories.	An approach that envisages 3-year SRDRs and an average of those SRDRs over a 10-year time period to achieve the LRDR has been chosen on the one hand to comply with the international standards (Annex 2 of the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006) and on the other hand to reduce the migration of ratings across categories, which in turn reduces procyclicality in own funds requirements. Applying periods greater than 3 years for certain rating categories would not allow for a homogeneous level playing field across CQSs and thus mappings. Also, using time periods greater than 3 years for certain rating categories would imply no compliance with international standards, given that they specify benchmarks	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		referred to a 3-year time horizon.	
Q2 / Explanatory Text – Sufficient number of credit ratings	A number of suggestions were provided on the method of determination of sufficient number of credit ratings: a. One respondent argues that a better yet still practical definition of the sufficient number of credit ratings would be to require the number of credit ratings to be greater or equal to **twice the inverse** of the expected default rate. b. One respondent suggests envisaging a **more judgemental-based methodology** when defining the sufficient number of credit ratings. c. One respondent suggests that data should not be discarded from periods of small samples. Instead it is suggested to weigh each observation for 3-year periods by cohort size. d. One respondent requests confirmation that the minimum number of sufficient ratings for the calculation of the short run default rate is determined based on **the inverse of the long run default rate benchmarks** present in Annex I of the draft ITS. e. One respondent believes that the	With regard to the suggestions on the method of determination of sufficient number of credit ratings: a. The proposal to require the number of rated items to be greater than or equal to twice the inverse of the expected default rate may be an option, yet the major problem concerning the scarce data availability represents the actual limit. In fact only 6 out of 26 ECAIs have been capable to support a large pool based methodology when drafting mapping reports, which confirms the fact that at this stage sufficient data to perform this proposal is not present. b. Regarding the suggestion of applying a judgemental-based methodology, to guarantee a level playing field across ECAIs, as a first step only a quantitative methodology has to be applied, also for the definition of minimum number of sufficient credit ratings. In a second step qualitative and judgemental factors are applied. c. In the event that the number of credit ratings is not sufficient considering the inverse of the long run default rate benchmark requirement, those credit	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	method used to calculate the minimum size of the pool should not be limited to the unique approach of 'number of rated items to be greater or equal than the inverse of the expected long-run default rate'. **Various approaches are possible and should be allowed**: Bayesian inference to take properly into account the prior estimate and the observed distribution; Monte Carlo simulations or boot-strapping to calculate proper confidence intervals around values in the available data history.	ratings are still used when applying the small pool methodology. Thus no data is discarded in the mapping process. Further, regarding the suggestion about weighting by cohort size, the ESAs would like to remind that this principle has already been taken into account in case sufficient data exist through Article 4(5) of the draft ITS. d. Regarding the definition of the figures to be inverted to determine the sufficient number of credit ratings for the calculation of the SRDR, the ESAs confirm that these numbers correspond to the benchmark long run default rates present in Annex I of the addendum to the draft ITS. e. The ESAs welcome more complex statistical methodologies in order to derive more sophisticated quantitative methodologies when performing the mapping. However the issue rests on the available data when performing the computations. As mentioned above when performing the mapping only 6 out of 26 CRAs have been capable to support a large pool mapping methodology. For the remaining a methodology that focuses on small pools of data has been designed to account for the fact that few data are	

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		available.	
Q2 / Article 3(4)	Two respondents request clarifications related to the word **'representative'** in point (a) of Article 3(4) of the draft ITS, as well as the criteria used to indicate if rated items are representative.	With regard to point (a) in Article 3(4) of the ITS, the assessment of whether a pool is representative or not is based on some basic criteria such as the type of issuers and further details were deemed not to be necessary given the rather qualitative nature of this characteristic.	No change.
	One respondent requests more clarity on the quantification of **'sufficiently numerous'** in point (b) of Article 3(4) of the draft ITS.	With regard to point (b) the clarification of 'sufficiently numerous' is provided in the explanatory text. Basically 'sufficiently numerous with respect to the perceived risk profile of the rating category' points to the methodology for the determination of the sufficient number of rated items for the calculation of the SRDR (i.e. to be larger than or equal to the inverse of the long run default rate benchmark).	The final draft ITS have been drafted in a way that addresses the comment raised.
Q2 / Article 3(5) – Treatment of withdrawn items	Seven respondents indicate that **50% weight is very strict**, for various reasons: - First the 3-year time horizon for the SRDR will trigger additional costs for ECAIs that choose not to monitor ratings over the 3-year period even if they are withdrawn. - Second, some rating agencies continue to prepare unsolicited ratings when a corporate ceases to order a rating, or	If the ESAs are unable to assess whether or not a corporate has defaulted after withdrawal, this lack in information has to be taken into account in the default rate computation, which creates the reason for the choice of a 50% weighting. The ESAs believe that there may have been some misunderstanding about the meaning of the 50% weight for withdrawn items. The grounds that have been employed to calibrate this number rely on the time period over which a short run default rate is computed. With a	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	they monitor it in other ways, and this is not taken into account by the mapping.	weight equal to 1 (i.e. no withdrawal) it is assumed that the ECAI has monitored the item for the whole 3 year time period. On the other hand when a withdrawal is realised, the 50% weight assumes that the ECAI has monitored that item for 1.5 years. It has to be made clear that withdrawals enter only the denominator that is when a 50% weight is added to the denominator for a withdrawn item, the numerator remains untouched, meaning that this withdrawn item is not treated as defaulted. If on the contrary the item was withdrawn, and subsequently defaulted, it would enter both the denominator and the numerator with a weight of 1. It has to be clarified that when performing the mappings, where applicable, the ESAs have considered the information concerning the default behaviour of withdrawn items if provided, and thus not applied the 50% weight adjustment.	
	Two respondents suggest to clearly indicate in the ITS that withdrawn items defaulted in the considered period must be counted as 100% in the numerator.	The ESAs believe that the text of the draft ITS clearly states that the numerator represents the number of items that have defaulted prior to the end of the 3 year time horizon considered for the calculation of the SRDR. Moreover, according to the ITS it is not possible to assign a 50% weight to defaulted items.	No change.
Q2 / Recital 5 /	Five respondents request **more precision in the**	The ESAs are aware that the definition of default	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
Article 3(6) – Definition of Default	**definition of default** described in Article 3(6), regarding paragraphs (b), (c) and (d) of the draft ITS.	presented in the ITS might be detailed further, however this would add further complexity, also considering that ECAIs exhibit different definition of default and might operate under different jurisdictions. Thus it might be difficult for ECAIs to comply/be mapped to a narrowly specified definition of the default events considered. Indeed, when performing the mappings ECAIs are asked to provide their specific definition of default: mapping this information to the default definition benchmark outlined in the draft ITS becomes easier once the default events are defined in a broader way, thus allowing a larger spectrum of the default events to be considered by the ECAI. The ESAs believe that the proposed definition of default is able to provide the adequate level of detail for the purpose of the mapping.	
	One respondent asks to clarify if each default event is **mandatory/optional**.	With regard to the mandatory/optional types of defaults, it is to be noted that the ITS does not prescribe a certain definition to be used by all ECAIs; rather, in order to ensure comparability it strives to use a uniform definition for mapping purposes only.	No change.
	Several respondents showed concern with regard to the **public availability of the default data** (e.g. SME bank loans). It was suggested that descriptions be provided of how these data should be accessed. One respondent in	Public availability of default information has clearly been an issue. The ITS does not provide a solution to ensure the access to default data as this is part of the ECAI strategy and business plan. However, if certain types of default are not	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	particular asks to clarify if regulatory provisions will be adopted for allowing ECAIs to have access to specific types of default data that are not publicly available.	included in the default data and if there is clear evidence that the additional default will have an impact on the final mapping, this is taken into account by applying an adjustment to the reported default rates.	
	Another respondent said that the definition of default laid down in Article 3(6) of the draft ITS should follow the one set out **in Article 178 of the CRR**. In this regard, the recital 5 of the draft ITS should be modified in order to stress that for the purpose of harmonisation the aim should be to approach the CRR definition of default. Alternatively a proxy may be used in order to ensure that the overall level of capital required for externally rated exposures is not changed.	The ESAs acknowledge that the definition of default present in the draft ITS is not the one set out in Article 178 of the CRR. The benchmark default definition is the one used in the Basel II text to calibrate the default rate benchmarks (Annex 2 of the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006). The application of a different definition of default from that currently applied in the draft ITS would mean non-compliance with international standards since it would require an ad-hoc computation of brand-new benchmark levels. Also, referring for instance to the Article 178 CRR of 90-days past due: recalibrating the benchmarks taking into account this default event would be a very challenging exercise as this information is not easily available. Furthermore, a different definition of default than the one applied in the draft ITS would not ensure that the overall level of capital required to externally rated exposures remains unchanged.	The recital has been partially adjusted to better explain the underlying policy decision.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
Q3. Do you agree with the proposed requirements imposed to the calculation of the long run default rate when a sufficient number of credit ratings is available?			
Q3 / Article 4(2)	One respondent suggests that the definition of initial LRDR could be more precise and clearer.	The LRDR is defined as the weighted average of at least 10 SRDRs.	No change.
	One respondent suggests that the mapping of both long-term and short-term ratings should be based on observations of default rates for a long term horizon.	The mapping of both short-term and long-term ratings is based on the LRDR. The initial mapping of long-term ratings is derived from the LRDR calculated according to the ITS; subsequently the mapping of the short-term ratings is derived from the internal relationship with the long-term ratings (thus implicitly short-term ratings are still assessed on the basis of a long-term time horizon as suggested).	No change.
Q3 / Article 4(3)	Two respondents believe that more clarification should be given on the methodology of the estimation of SRDRs when fewer than 20 periods of default data are available. In particular: - It is not clear why the number of items implied in the least recent observed default rate is used for weighting the	The methodology for the estimation of default rates in cases where fewer than 20 periods are available is not specified in the ITS. These estimations may as well be provided by the ECAI. Provided that the calculation of the quantitative factors in the default methodology makes use of the data present in CEREP, such data are supposed to be complete until a certain	The weights applied for weighting the estimated short run default rates in the weighted average used to calculate the long run default rate, where fewer than 20 short run default rates are available, will be estimated, as is currently the case for short run default rates.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	estimated default rates; - it is not clear whether there are certain rules for the estimation of the SRDRs.	semester in the past. Thus if needed to estimate default rates these will be estimated further in the past, taking especially into consideration the least recent available information and thus the least recent SRDR. However it is recognised that this requirement might bias the weighted average, so that it is proposed to use estimates also for the weights to be applied for the estimated default rates. When estimating SRDRs the only condition is that the available observed default rates refer to the most recent recessionary period as specified in Article 4(4) of the draft ITS.	
Q3 / Article 4(4)	Three respondents request more clarification with respect to 'the most recent recessionary period' to which short run default rates shall refer. Two of these stress also the fact that most ECAIs already apply a through-the-cycle (TTC) approach which accounts for the recessionary period, so that this requirement could be too conservative.	The draft ITS require that short run default rates used in the weighted average shall include the most recent recessionary period. If ECAIs apply a TTC credit assessment, this embeds by definition a recessionary period, as a TTC evaluation aims at achieving rating stability over time, and in order to obtain it considerations on recessionary periods have to be taken into account. Even though requiring the computations to include also the most recent recessionary period would lead to more conservative LRDR, doing so is advisable given the prudential regulatory objectives of the ITS.	No change.
	One respondent suggests that SRDR should refer to the most recent recessionary period only for the purpose of the weighted average referred as	The requirement that a recessionary period be included is necessary in both cases, to ensure that such a period is included in the 20 semester	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	in Article 4(3) and not of the one as in Article 4(2) of the draft ITS.	timeframe. Given that the weighted average referred to in Article 4(2) in fact covers a longer amount of time than the one referred to in Article 4(3), it would not be restrictive to include this requirement. It may be necessary however to use a time series longer than 20 periods if such a recessionary period falls outside the most recent 20 periods.	
Q3 / Article 4(5)	Two respondents claim that it should be clarified how the weights of the weighted average shall ensure an adequate representation of recessionary and non-recessionary periods.	The adequate representation refers to cases when only 1-year of recession is included, when the recession lasts for 3-4 years, or when the number of ratings is significantly lower in recessionary periods compared to the non-recessionary period. This criterion is applied based on expert judgement.	No change.
Q3 / Explanatory Text	Two respondents believe that there should be a principle that guides the firm specific methodologies rather than a restrictive approach such as proposed in the ITS (SRDR based on a 3-year time horizon, LRDR as a 10-year average of SRDRs). The use of expert judgement and rationale can complement the calibration process if there is a need for management adjustment of calculation output.	A closed approach has been chosen (SRDR is based on a 3-year time horizon, while the LRDR is a 10-year average of SRDRs) in order to comply with international standards, that is the approach proposed by the Basel text (Annex 2 of the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006), so to ensure data consistency and comparability of results. In addition, qualitative factors are still applied in accordance with Article 8 of the ITS and acquire higher importance in cases where there are	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		fewer quantitative data available.	
Q4. Do you agree with the proposed options to calculate the quantitative factors when a sufficient number of credit ratings is not available?			
Q4 / Article 5	One respondent highlights that in cases in which there is no sufficient data, the only way to establish a mapping is to do it by applying a **co-rated analysis with the ratings of another ECAI** with a sufficient number of observations and use the long-run average default rates of that ECAI to infer own LRDRs.	This method is applied and proxy long-run default rates (hypothetical default rates) are inferred based on credit assessments that have already been mapped according to the ITS. However instead of individual ECAI long-run default rates the Basel benchmarks are used as it is assumed that the benchmark ECAI that has already been mapped is compliant with these Basel benchmarks. However, the ESAs consider that different measures of creditworthiness assigned to items of the same rating category to infer the long run default rate should be treated as a qualitative factor, in that they do not reflect the true default behaviour of the rated items, as highlighted also in the comments received during the consultation.	Different measures of creditworthiness assigned to items of the same rating category (e.g. credit scores, external ratings) are now considered as a qualitative factor for the purposes of the mapping exercise.
	One respondent **does not agree with the application of external rating** benchmarks of international ECAIs, as this implies that the rating methodologies are fully comparable and	With regard to the concerns related to the use of external ratings, it has to be emphasised that the mapping aims to map the outcomes of the ratings. Therefore, if an ECAI believes that its	Different measures of creditworthiness assigned to items of the same rating category (e.g. credit scores, external ratings) are

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	almost identical, which is not the case.	BBB rating corresponds to an international BBB rating with a LRDR of 1%, then its default rate should be in line with the ratings of an ECAI that fulfils the Basel benchmark, irrespective of its methodology. However the ESAs recognise that such methodology would use default experience stemming from external sources rather than the default data from rated items, so that it should be considered less reliable for the purpose of the long run default rate calculation. Thus the ESAs welcome the comment and propose that the application of external ratings to achieve a proxy long run default rate to be treated as a qualitative factor.	now considered as a qualitative factor for the purposes of the mapping exercise.
	Two respondents agree with the application of external ratings but believe that more emphasis should be placed on **targeting comparability** than currently implied by the ITS. For example, some consistent requisites should be imposed on ratings meanings and internal default definitions of ECAIs, in order for them to be considered. One respondent also believes that differences in the default definition could potentially bias the mapping monitoring.	Although the ESAs agree that higher comparability would provide better outcomes, it is noted that the default rate of the rated items is expected to be in line with the benchmark default rates associated by other ECAIs to the same items. Regarding the consistency of requisites for external ratings, restrictions are in place given that they are generally assigned by large international ECAIs (S&P, Moody's, Fitch, DBRS) which adopt the benchmark definition of default.	No change.
	One respondent highlighted that from an economic perspective, the use of credit ratings	The ESAs agree with the comment. However the ESAs believe that in cases of limited data	Different measures of creditworthiness assigned to items

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	of other ECAIs creates redundancies and increases the overall **systemic risk**.	availability, any evidence providing an indication able to reduce the degree of uncertainty regarding the default rate estimate should be considered, especially compared with a situation where the default rate is purely based on a qualitative statement. Nevertheless, the ESAs consider that different measures of creditworthiness assigned to items of the same rating category (e.g. credit scores, external ratings) to infer the long run default rate should be treated as a qualitative factor, in that they do not reflect the true default behaviour of the rated items, and thus welcome the proposed comment.	of the same rating category (e.g. credit scores, external ratings) are now considered as a qualitative factor for the purposes of the mapping exercise.
	Three respondents have **concerns with regard to the use of scores** as a different measure of creditworthiness. One respondent believes that giving them a similar value to the ratings may lead to unfair treatment and discrimination of some ECAIs. It has been highlighted that according to the CRA Regulation, credit scores are not ratings; they are generated automatically and do not involve any analytical contribution of a credit rating analyst.	The scores can be used as a different measure of creditworthiness in the current methodology if the ECAI can also provide evidence of the relationship between its scores and ratings on a limited sample. The ESAs would like to highlight that the scores have been applied as a qualitative factor when performing the mappings, and not as a quantitative factor. Thus, the ESAs recognise and agree with the comments received in this regard during the consultation on these ITS.	Different measures of creditworthiness assigned to items of the same rating category (e.g. credit scores, external ratings) are now considered as a qualitative factor for the purposes of the mapping exercise.
	One respondent, who is **in favour of the usage of scores**, warns that a prudent approach should not be applied to ECAIs that provide scores, as it may lead to unjustified discrimination of ECAIs	A more prudent approach should be applied to scores compared to ratings as the scores do not reflect the information contained in the final rating that an ECAI would assign to an entity.	Different measures of creditworthiness assigned to items of the same rating category (e.g. credit scores, external ratings) are

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	that have sufficient scores.	The final rating, which includes also expert judgement, is unknown, and therefore a similar treatment to public ratings is not justified.	now considered as a qualitative factor for the purposes of the mapping exercise.
	One respondent **acknowledges the importance of scores** to potentially help ECAIs with limited amount of ratings, but highlights that **further clarifications** should be given with regard to the following issues: a. Time and cost implications given that the CEREP data do not include scores. b. The scores withdrawn prior to a 3-year time horizon should be treated similarly to withdrawn ratings.	On the clarifications to be provided: a. With regard to the time and cost implications, the use of scores indeed means that the data have to be received from the ECAI. However, the use of scores should only be a temporary measure, to be used while the ECAI has limited amount of ratings; as soon as a sufficient number of ratings is available these will be used instead. b. Generally, the approach of taking scores into account consists of creating a relationship between the scores and the ratings based on a subset of own ratings. This relationship together with the observed default rate of the credit scores are further used to derive a hypothetical default rate of a certain rating category. The calculation of the observed default rate follows as closely as possible the calculation of the default rates as per the quantitative factor, therefore the 50% weight treatment applies in case of withdrawals.	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
Q4 / Article 6	One respondent believes the ITS should give more details and clarity on the use of other ECAIs evaluation and consider differences in the default definition that could potentially bias the mapping monitoring.	As explained above, in the case of the use of external ratings, the differences in definition of default are not a concern as long as the definition of default of the benchmark ECAI is in line with the definition of default in Article 3(6) of the ITS. The mapping is conducted through a matrix co-rating analysis aligning the ratings of the mapped ECAI to the ratings of the benchmark ECAI and based on this the corresponding inferred LRDRs will be calculated.	No change.
Q4 / Article 7 – Small Pool Methodology (SPM)	Four respondents claim that it is impossible for any small or newly established rating agency to reach the minimum number of rated items indicated by Table 1 in the addendum to the draft ITS when assigning the mapping. The most critical number is 496, which does not allow many ECAIs to achieve CQS1 for the best rating categories. These respondents believe the degree of prudence introduced by this floor hampers competition and in some cases, could exclude ECAIs from entering certain markets. In addition respondents claim that setting a minimum number of default occurrences and equivalent rating category is not consistent with level 1 legislation which focuses on 'default rates experienced'. For these reasons respondents propose either removing or reducing the minimum number of items required for CQS1 (i.e. 496).	The ESAs acknowledge that the SPM through the application of Table 1 of the addendum to draft ITS, has raised concerns among the industry. The ESAs believe that quantitative requirements have to be applied also in case of ECAIs with limited data availability for a number of reasons, including the following: - The **prudential goal of the mapping** (emphasised in recital 6 of the draft ITS) has to be stressed. Further the level 1 text requires also the **specification of quantitative factors** for the purpose of the mapping other than specification of the qualitative factors. - The proposed approach ensures the **stability of rating assignments** through its minimum sample requirements, so that given the level of confidence during downturn conditions very few	The final draft ITS propose, for small and newly established ECAIs which present limited quantitative information, the application of a phase-in period of 3 years in which relaxed quantitative requirements are employed for the production of the mapping.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		additional defaults would not lead to a revision of the mapping and substantial increase of capital requirements for institutions. Hence the approach guarantees the **stability of capital requirements**. - The proposed approach provides a minimum **level playing field** with respect to the level of conservatism applied under the **Standardised Approach (SA)** and **Internal Ratings Based (IRB) Approach** among the institutions. Under the IRB Approach institutions shall add to their estimates a margin of conservatism when methodology or data are considered to be less satisfactory (e.g. Article 179 of the CRR). - The SPM is not per se conservative with respect to, for example, the methodology applied for large pools of items. For example, with respect to the 496 items: under the large pool methodology for a rating category candidate to CQS 1 the requirement would be 1000 items per semester, which leads to 2000 items per year. Therefore, the Table 1 in the addendum to the draft ITS represents an important step towards the recognition of better mappings for small ECAIs. Moreover,	

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		under the SPM items are grouped along cohorts over time to determine the total number of rated items which further increase the possibility of raising the number of observations. - Lack of credit ratings (data) is also linked to limited experience in application of the methodology by new ECAIs and lack of (or at least limited) **backtesting** results. - Especially for best rating categories, a conservative approach is applied not on the basis of poor performance and level of accuracy of the credit ratings, but because of **lack of enough evidence, which creates room for uncertainty**. Given the prudential goal of the mapping, this uncertainty is translated into some degree of prudence. The ESAs fully recognise the general policy objective to foster competition in the CRAs market, as expressed in the CRA Regulation and reiterated by the industry during the consultation to support the proposed amendments with respect to the SPM. Nonetheless, the mandate given to the ESAs in the CRR must be anchored in a prudentially sound treatment of bank exposures. In the absence of data, embedding a conservative adjustment is standard practice in the prudential	

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		framework and ensures incentives for the ECAIs to provide the relevant data for the purpose of the mapping. The ESAS consider however necessary to avoid causing undue material disadvantage on those ECAIs which, due to their more recent entrance in the market, present limited quantitative information, with the view to balancing prudential with market concerns. As a result, in such cases where there is limited quantitative information, with the view to ensuring objectivity and consistency in the mappings, two mappings should apply: a first mapping should apply for a limited period of 3 years; thereafter another mapping should become applicable. Both mappings should take into account quantitative and qualitative factors. Compared to the second mapping the quantitative factors for deriving the first mapping should be relaxed.	
	One respondent believes that the assessment of LRDR in this case is less clear, and that other factors than those presented in Article 7(2) should be considered.	In the addendum to the draft ITS it is specified how the mapping is performed when applying the SPM. In this case the LRDR would no longer be computed, instead the mapping would be performed directly through Table 1 of the addendum to the draft ITS. In addition, in the second stage of the mapping exercise (as reported in Article 8 of the draft ITS) qualitative factors are used to complement the factors indicated in Article 7(2) of the draft ITS.	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	One respondent requests more **transparency** concerning the derivation of the required number of rated items for each rating category.	The Joint Committee mandate envisages the inclusion in the ITS of the quantitative and qualitative factors as well as the benchmarks for the mapping of ECAIs' credit assessments. However it does not include the explanation of how the quantitative and qualitative factors are being applied. The disclosure of the full methodology is beyond the mandate of the ITS. Moreover, a full methodology would be prescriptive and would open the door for ECAIs to manipulate the results of the mapping process. It has to be highlighted that for transparency reasons the EBA has already disclosed the individual ECAIs' Mapping Reports, which describe how the factors were implemented for each ECAI case.	No change.
Q5. Do you agree with the proposed use of the default definition used by the ECAI as a relevant factor for the mapping? Do you agree with the proposed assessment of the comparability of the default definition of an ECAI? If not, what alternatives would			

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
you propose?			
Q5 / Article 8 – Qualitative Factors	One respondent, recalling that the CRR prescribes looking at the pool of issuers that the ECAI covers (Article 136(2)(b) of the CRR), asks how that will be implemented.	When the mapping is performed, ECAIs provide information about the pool of issuers on which they focus. For instance the rating scales definitions are able to give an overview with respect to the issuers analysed. In addition the assessment standards definitions used by the ECAI are able to qualitatively define the corporates under discussion. The application of definition of default as a qualitative factor is also closely related to the pool of rated issuers. In addition Article 8(d) of the draft ITS through the creditworthiness of items assigned the same rating category qualitative factor is able to look at the characteristics of the issuers (size, sector, geography, etc.) that the ECAI covers.	No change.
Q5 / Article 9 – Definition of Default Adjustment	One respondent suggests considering any other relevant information according to Article 8(g): ECAI's rating universe, incorporating any additional information on defaulted entities available to an ECAI and apply an uplift only to the extent, which is based on observed market data and standards provided by industry experts.	According to Article 8(g), the draft ITS is already keen on using any other relevant information to describe the degree of risk of the rating category, which can also be used to provide further guidance relative to the uplift, so the proposal seems to be already embedded in the ITS.	No change.
	Two respondents believe that **adjustments of default rates when an ECAI considers only bankruptcies is simplistic**, especially the assumption that the number of non-bankruptcy defaults is expected to be equal to the number	The factor used to adjust the default rate depending on the definition of default used by the ECAIs has been calibrated on the information employed to calibrate the benchmarks provided by international standards	No change

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	of bankruptcy defaults. In addition the potential differences in the time required for the completion of a bankruptcy filing in different Member States could bias the default rate calculations across member states.	(Annex 2 of the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006). Using the respective definition of default as a basis, the number of non-bankruptcy defaults is expected to be equal to the number of bankruptcy defaults. To this end the ESAs have received evidence from Member States showing that overall the number of defaults due to bankruptcy is expected to be equal to or lower than the number of non-bankruptcy defaults. This would confirm the application of the current factor as designed.	
	One respondent suggests including in the text of the ITS the methodology describing how default rates are adjusted on the basis of the definition of default.	As explained in a few points, the mandate of the EBA is to provide the factors taken into account, and not how they were implemented. For transparency reasons, the way in which they are implemented are provided in the Mapping Reports. Moreover, it has to be highlighted that the adjustment of the definition of default is not mechanical, and a certain level of judgement is applied. Specifying it in the ITS may lead to a more mechanical application.	No change.
	Two respondents suggest that the definition of default is an important factor, and it should be **as consistent as possible with the CRR definition of default** (Article 178 of the CRR). In this respect one respondent notes that unlike the CRR definition the ITS mentions a regulatory	With regard to the comparability of the definition of default in Article 3(6) of the draft ITS with the one in Article 178 of the CRR, while consistency between these two definitions would be ideal, it is not the case, as there are a number of differences, in particular the 90 days	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	action, such as restrictions on cash disbursements, as a potential trigger for marking a default, and asks if this has to be interpreted as an additional example of an 'Unlikeliness to Pay' trigger under Article 178 of the CRR.	past due criterion. With regard to regulatory supervision, it could indeed be considered one criterion of unlikeliness to pay, together with bankruptcy filing, distressed exchange and even missed payments. However it is not necessarily the only criterion. Therefore comparability is not ensured.	
Q5 / Explanatory Text	One respondent suggests that some relevant information on default is not easily accessible to ECAIs, especially on defaults on commercial or tax payments.	The ESAs are aware that CRAs are less knowledgeable than credit institutions (e.g. banks) about the details of the default events underlying defaulting processes. For this reason a certain degree of prudence should be maintained.	No change.
	One respondent believes that the **100% uplift of the initial default rate is too high**, particularly in cases where only bankruptcy events are included in the definition of default.	The analysis conducted in a few Member States showed that in fact the adjustment factor is not as conservative as the respondent suggests.	No change.
	One respondent suggests that ECAIs shall document the specific definitions of default used internally and ensure consistency with the definitions set out in the CRR. In addition it notes that the definition of default proposed for ECAIs that focus on large corporates does not necessarily match with a benchmark proposed for SMEs. To this end ECAIs rating SMEs might need a different adjustment factor compared to ECAIs rating large companies.	It would be indeed useful if ECAIs had a definition comparable to either the CRR one or the Basel one. Nevertheless this is not the case, and currently all the ECAIs have different definitions. Moreover the Basel benchmarks are based on a different definition of default. This clearly indicates the need for adjustment to ensure comparability. In this regard, bankruptcy rates seem to be the indicators that are most comparable among ECAIs. Consequently, the adjustment factor was based on the share of bankruptcies in total defaults and only in cases	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		when the initial default rate is very close to the bounds of the CQS which may lead to a clear worsening in the CQS if additional defaults are to be included.	
Q6. Do you agree with the proposed use of the time horizon of the rating category as a relevant factor for the mapping? Do you agree with the proposed use of transition probabilities to identify the expected level of risk during the 3-year time horizon?			
Q6 / Article 10 – Time horizon of a rating category	Two respondents were concerned about the application of the transition probabilities in the mapping process. Specifically, it was suggested that transition probabilities be used to differentiate between different levels of risk in each rating category. It was also asked how they will be used as a qualitative factor to adjust default rates and if there are specific expected levels for each CQS.	Transition probabilities are used to assess credit ratings based on time horizons shorter than 3 years in the event that quantitative factors prove to be inadequate. In this case transition probabilities can provide an idea of the likelihood of a rating category worsening over time. This turns out to be a good proxy to value rating shifts, especially referred to point-in-time (PIT) ratings, which are assigned by some ECAIs. Although transition probabilities might be used as an indicator to differentiate between	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		different levels of risk in each rating category, this is considered to be less reliable than the default rate used in the quantitative assessment; furthermore there are no benchmark expected levels of the transition probabilities, and they are assessed based on expert judgement.	
	Two respondents expressed interest in multi-year observations to observe and calibrate the default rate. It was also proposed to take into account a 5-year time horizon.	Longer time horizons are consistent with through-the-cycle (TTC) credit ratings. However the ITS focus on 3 year time horizons in order to comply with international standards (Annex 2 of the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version' dated June 2006).	No change.
Q7. Do you agree with the proposed use of the range and meaning of rating categories as a relevant factor for the mapping? Do you agree with the proposed restriction of this factor to adjacent rating categories?			
Q7 / Article 11 – Meaning and relative	Four respondent believe that the usefulness of the factor 'Meaning and relative position of a	The ESAs are aware of the fact that ECAIs could have many more rating categories than the six	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
position of a rating category	rating category' will greatly depend on the number of the rating categories; in addition the restriction to use this factor only for adjacent categories may prove too strict when the number of rating categories is much larger than the number of the credit quality steps. It is proposed to include in the mapping process some information associated with specific rating (notch) categories.	CQSs. However measures have to be taken in order to prevent an unconstrained use of this factor: for rating categories far from an already mapped category, the relative position in the rating scale might not be a sufficient criterion to capture the different level of risk underlying those rating categories. With respect to including in the mapping process some information regarding the specific rating (notch) categories, the ESAs note that these ITS are based on the six CQS levels provided by the level 1 text: a more granular mapping process would lead to lower number of credit ratings available per rating (notch) category, thus increasing the variance and estimation errors. Finally it has to be noted that even though the proposal may sound reasonable, at the current stage it is inapplicable due to the scarcity of available data.	
Q8. Do you agree with the proposed use of the risk profile of a rating category as a relevant factor for the mapping?			
Q8 / Article 12 – Creditworthiness of items assigned the same rating category	Three respondents **disagree with Article 12**. Using this **adjustment factor** would also penalise ECAIs which assess SMEs, even if they have developed long experience in this field.	The ESAs acknowledge that the points raised are justified on many occasions. A blind application of the principles laid down in this Article would bias the mapping exercise. It has to be clarified	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		however that this factor is not applied mechanically, and only in cases when there is clear evidence that additional unaccounted defaults would result in a lower credit risk category.	
	Two respondents believe that the risk profile (through size/sector/geography) has to be used, even though it can bring excessive subjectivity; in addition diversification of activities and counterparties should also be taken into account. One respondent believes that the minimum standard for assigning creditworthiness should not be limited to size, sector and geography: the metrics for size should be better defined and historical and projected financial performance should also be considered.	The ESAs recognise that there exist other characteristics or factors able to proxy the creditworthiness of items assigned the same rating category. Nevertheless the ESAs believe that size combined with degree of sector and/or geographical diversification is able to provide valuable information regarding the resilience of the rated entities to adverse shocks. The ESAs note also that other metrics that can describe the degree of risk expressed by a rating category can enter the analysis under Article 8(g) of the draft ITS. It is however expected that such additional information is more difficult to be assessed and/or retrieved. The ESAs do also agree that this factor might lead to excess subjectivity: in this regard the ESAs would like to ensure that this factor is used only in cases where quantitative factors prove not to be adequate, that is in those cases in which expert judgement is applied and any valuable information might provide further guidance.	No change.
Q9. Do you agree with the proposed			

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
use of the estimate provided by the ECAI of the long run default rate associated with all items assigned the same rating category as a relevant factor for the mapping? Do you agree with the proposed role played by this factor depending on the availability of default data for the rating category?			
Q9 / Article 13 – Estimate of LRDR provided by the ECAI	One respondent expresses concerns about how and when estimates will be used.	The estimate of the long run default rate will be used as a starting point for the mapping, and will be later challenged by the other quantitative and qualitative factors. For instance, suppose that an ECAI suggests that the expected long run default rate of its A rating category is 0.21%. Then, according to Article 15 of the draft ITS we would need to challenge the fact that the rating category under consideration has to receive CQS2.	No change.
	One respondent agrees to consider the estimate provided by the ECAI of the LRDR but subject to a more transparent description of the derivation of Table 1 of the addendum to the ITS on the	The comment on the transparency of the SPM table has already been provided above for Q4 on Article 7 of the ITS.	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	minimum number of required rated items. This respondent also believes that a different measure of creditworthiness should not be applied to calculate the long-run default rate as set out in Article 6, because different measures will not fully reflect any analyst driven rating approach but bias the risk associated with a rating category.	As suggested in response to previous comments, on the use of other measures of creditworthiness, the ESAs welcome the comment raised and agree that they should not be considered as reliable as the default information of the rated items. Therefore different measure of creditworthiness have been moved to the qualitative part of the ITS and will now contribute as qualitative factors for the purposes of the mapping exercise.	
Q10. Do you agree with the proposed use of the internal mapping of a rating category established by the ECAI?			
Q10 / Article 14 – Internal Mapping	One respondent believes this issue needs further discussion given the differences between rating scales applied by ECAIs.	The internal mapping between the different rating scales of one ECAI is provided by the ECAI itself. Moreover, if the ECAI believes that the scales are not comparable, each rating scale has been mapped separately, taking into account the data limitations that come with it.	No change.
	One respondent believes that the proposal is quite intrusive and it is more appropriate to focus on an ECAI's published mappings rather than the internal ones. Indeed an ECAI's internal mappings may be less robust than its published outputs and may exist merely as an informal guidance. In addition this respondent thinks that	The ESAs agree that it is more appropriate to trust ECAI's published rating mappings more than their internal ones. However, when no published mappings are available the internal ones are still considered to be useful for the purpose of the mapping exercise.	No change.

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	clarifications may be needed between Article 11 and Article 14 of the draft ITS.	Regarding Article 11 and Article 14, the ESAs would like to clarify that whereas in Article 11 the focus is on the same rating scale, and the objective is to find relationships across its various categories, in Article 14 the focus is on the relationship among rating categories of different rating scales of the same ECAI.	
Q11. Do you agree with the proposed specification of the long run and short run benchmarks? In particular, do you think that different benchmarks should be introduced to fully take into account the specific situation of ECAIs relying on the regulatory definition of default and/or of ECAIs providing ratings for companies that do not rely on market financing, including in particular SMEs? Do you agree with the proposed mechanism to			

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
identify a weakening of assessment standards?			
Q11 / Article 15 – Benchmarks	One respondent would like to understand how the benchmarks have been generated.	The benchmarks provided by the draft ITS are the ones provided by the Basel II text (Annex 2 of the document 'Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework — Comprehensive Version' dated June 2006).	No change.
	One respondent believes that to correctly apply the re-mapping methodology, there is a need to guarantee the representativeness of the benchmark regarding the ECAI, otherwise the mapping procedure is groundless. To this aim another respondent adds that it is questionable whether the benchmarks provided by Basel are still valid as a result of changes during and after the crisis.	Since Basel II calibrated the benchmarks on the main rating agencies (e.g. S&P and Moody's), if the ESAs had achieved different results for these CRAs for the LRDR and SRDR from those of Basel, then it would have been likely that a groundless procedure would have been applied to perform the mapping. However since DR results for big ECAIs are in line with the Basel text the ESAs deem the proposed methodology consistent.	No change.
	One respondent raised concerns about the practical application of the benchmarks and their implications for the mapping process.	Long run default rates benchmarks bounds are used as reference in the mapping process: depending on where the default rate of the rating category under analysis falls, the CQS is assigned. Short run default rate benchmarks monitoring and trigger levels are compared with short run default rates of the rating category under analysis to signal possible worsening in its assessment standards.	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	One respondent suggests that in case a wider default definition (as per Article 178 of the CRR) is applied for mapping to all CRAs, long-term benchmark bounds should be adjusted accordingly.	As of now, the benchmarks values are consistent with the definition of default provided in Article 3(6) of draft ITS, which is different from the definition of default present in Article 178 of the CRR.	No change.
	One respondent believes that specific benchmarks should be introduced for ECAIs relying on the regulatory definition of default, or for ECAIs providing rating to non-marketable assets.	The suggestion of introducing benchmarks for the definition of default for non-marketable assets has been acknowledged in the consultation paper and opinions and suggestions have been requested from the respondents. Nevertheless, this exercise is feasible only in the medium term, and for the purpose of the mapping as part of the CRR mandate this option is not feasible.	No change.
Q11 / Recital (19) / Article 15 Explanatory Text – Weakening of the assessment standards	Three respondents claim that the ITS should specify the actions that will be followed by ESAs when a weakening of the assessment standards is identified.	The EC mandate has as objective the definition of the quantitative factors, qualitative factors and benchmarks to be used when performing the mapping exercise. The mandate does not include the requirements to specify either the frequency with which the mapping exercise has to be repeated over time or how remediation actions have to be specifically managed when a weakening of the credit assessments standards is identified.	No change.
	It is not clear for two respondents which conditions have to be met in order to consider the weakening of the assessment standards material. In addition one respondent claims that	The conditions to be met to consider the weakening of the assessment standards material are provided in explanatory box for Article 15. Specifically a default rate of a rating category	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	the approach seems to be applied disproportionately to certain types of instruments.	should be considered as materially higher than the benchmark if the lower limit of the confidence interval corresponding to the short run default rate is higher than the short run benchmark (i.e. either monitoring or trigger level). A weakening of the assessment standards is identified as soon as the three conditions reported in the explanatory text of Article 15 of the draft ITS are all met: in the last condition is embedded any exogenous consideration which may overcome quantitative findings. It has to be noted that if the draft ITS proposed different benchmarks for different instruments this would not comply with international standards (i.e. Basel text).	
	One respondent suggests that the automatic identification of the weakening of the assessment standards should be included in the text of the ITS.	Notwithstanding that the ESAs understand and agree with the importance and relevance of the identification of the weakening of the assessment standards, the ESAs note that EC mandate has as objective the definition of the quantitative factors, qualitative factors and benchmarks to be used in the mapping process. Extensive explanation in the ITS concerning the automatic identification of the weakening of the assessment standards is something more related to monitoring and updating of the mapping, so the ESAs believe it should not enter the ITS text.	No change.
	One respondent believes that action should be taken within the 2 years if there is significant	The ESAs will carefully review and evaluate whether the increase in the default rate is	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	presence of breaches, considering also the effect of the underlying cycle.	driven by exogenous shocks and thus is temporary or whether it might be indicative of a worsening of the assessment standards. This applies also within the two years. However it has to be recognised that less than 2 years of evidence might not be enough indicative of worsening of assessment standards.	
	One respondent suggests a more robust approach for the confidence interval for the short run default rate, since the proposed one will lead to higher tolerances for the strongest rating categories which seems inappropriate.	The narrower the confidence interval the higher the likelihood of breaching the monitoring level. Keeping fixed the denominator under the square root, for stronger rating categories the numerator under the square root is small so that the confidence interval is narrow, thus it is likely that the confidence interval will lie above the monitoring level of the SRDR benchmark to signal an alert.	No change.
	One respondent agrees with the mechanism that detects a weakening of the assessment standards, but believes that the confidence level penalises ECAIs that assess a lot of companies. In this case N is larger, which has the effects of reducing the default rate on one side and narrowing the confidence interval on the other side. This in turn increases the probability to see breaches in monitoring and trigger levels. To solve this issue the respondent suggests comparing the long run default rate benchmark with the short term default rate under analysis.	The ESAs note that the observed number of defaults also plays a role in the determination of the confidence interval width, although they agree with the comment stating that ECAIs that assess many corporates (thus having large values of N) are more likely to see their short term benchmark limits breached. This should be reasonable because when N is large, the uncertainty regarding the SRDR reduces, thus decreasing the width of the confidence interval. According to this reasoning when N is larger we are more certain about the SRDR, so that the utility of the confidence interval vanishes, and we should compare directly the SRDR with the	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		benchmarks as it happens. In case of ECAIs that have lower N values, we are less certain about the SRDR value so that we are less confident to signal a breach: it follows that the confidence interval widens.	
Q12. Do you agree with our analysis of the impact of the proposals in this CP? If not, can you provide any evidence or data that would explain why you disagree or which might further inform our analysis of the likely impacts of the proposals?			
Q12 – Impact Assessment	One respondent indicates that in the draft ITS it is mentioned that the indirect costs will be entirely born by the credit institutions. However there might be indirect consequences on access to credit (such as an increase in borrowing costs or a drop in lending). In this case the costs will be borne also by companies. This respondent also believes the increase in capital requirements mainly affects ECAIs that rate a significant number of SMEs.	The ESAs note that as shown in the EBA's Report on Assessment of SME proposals for CRD IV/CRR published in September 2012, capital requirements are far from being the main factor in the lending decision of banks. Other factors such as the banks' liquidity position, the access to market financing and the economic outlook (the SME's financial situation, ability to pay back the debt and the quality and size of provided collateral) play an important role in the final lending decision. Thus if impacts might be expected in this regard they are considered not	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
		to be material.	
	One respondent foresees an impact on the mapping of the exposures to institutions and corporates with a short-term credit assessment. This impact has not been addressed in the CRR.	Due to the very limited number of short-term credit ratings in comparison with the long-term ones (considering the data present in CEREP, short-term ratings represent indicatively 5% of long-term ones) the ESAs have performed the impact assessments based on the latter, the impact of which is considered to be much more material, and at the same time representative of the impact on short-term ratings.	No change.
	Another respondent agrees that the main impact will be on the capital requirements for banks, but notes that the impact will not be confined to the Standardised Approach (SA), since ratings are used also in other parts of the regulatory framework, for example the ratings based approach for securitisation, collateral and guarantor eligibility and large exposure exemptions.	The ESAs are aware that credit ratings are used also in other parts of the regulatory framework. The ESAs note that in the securitisation framework the mapping is covered under Article 270, for which there is a specific mandate. In case of collateral, guarantor eligibility and large exposures, although an impact has to be expected this is considered to be less material than the one affecting the Standardised Approach (SA) to credit risk. The CRR is based based on the Basel framework, so such additional effects may be considered to be addressed by its calibration. Nonetheless the ESAs would have faced practical difficulties in running an impact assessment also on collateral, guarantor eligibility and large exposures exemptions, because the relevant data to perform that exercise are not readily available.	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
CP Specific Comments			
CP Specific Comments / Page 6	One respondent claims that the sentence 'credit assessments of covered bonds and shares in CIUs have been considered' is not clear, and suggests that for such issues, the recovery rate is also an important criterion.	The ESAs acknowledge that the recovery rate is also an important criterion, yet as pointed out in the 'Technical options considered' in the draft ITS, ECAIs usually do not keep a database of the effective losses borne by investors in defaulted instruments. This leads to the inability to easily access data regarding LGD and in turn recovery rates.	No change.
CP Specific Comments / Page 8	One respondent raised concerns about the sentence 'where the credit rating is based on a shorter horizon, the expected level of risk of the rating category beyond its time horizon (for example, second and third years if the time horizon of the credit rating is 12 months) should be considered to assess the level of risk of the rating category that is relevant for the mapping'. The respondent notes there are ratings (e.g. A1/P1) for which a 3-year horizon would not be appropriate to validate them; in addition the practical use of ratings relies primarily on a 1-year horizon.	The choice of the 3-year horizon to calculate the default rate implies that the risk reflected in any credit assessment should, at least, cover this period. Therefore, a qualitative factor should be applied every time the credit assessment is based on a shorter time horizon and the default rate is not available. Failure to do so would increase the potential for capital underestimation. For example, in the case of a rating system that focuses only on the forthcoming 12 months, if downgrades were expected during the second and third years, this should be considered in order to assess the level of risk that is relevant for the mapping.	No change.
CP Specific Comments / Page 9	The draft ITS states: 'The benchmarks proposed in these draft ITS have been chosen to maintain the overall level of capital required for externally rated exposures under the Standardised	The ESAs agree that risk is about uncertainty, and that volatility of losses should be considered. The ESAs however note that the Standardised Approach outlined in the CRR is	No change.

Comments	Summary of responses received	ESAs' analysis	Amendments to the proposals
	Approach'. One respondent indicates that strictly speaking, ratings are only about expected losses. Although these are very important for valuation purposes, they are not directly related to risk (assuming a diversified credit portfolio). Risk is about uncertainty, about volatility of average annual losses. It is important to continue to validate that expected losses are a meaningful indication of the volatility of annual average losses.	consistent with the Basel text, so that its current calibration should already take into account the mentioned issues.	
CP Specific Comments / Page 15	One respondent claimed that the sentence 'it should be measured over a 3 year time horizon in order to allow the observation of a significant number of defaults when risk is very low' is confusing. The respondent would have thought that the idea is to align with a 'through-the-cycle' investment horizon. Measuring over a period of 3 years does not create more data.	The ESAs agree that measuring over a period of 3 years does not create more data, but note that it increases the chances of registering further default events. This becomes relevant especially in the case of best rating categories, where the default rate is expected to be very low.	No change.
	One respondent does not understand the statement 'Also, it should not include public sector ratings given the scarcity of defaults for this type of rating'. The respondent would assume that the number of defaults is defined by the type of rating, rather than by the type of company, and therefore it does not see any reason to exclude public sector ratings.	The number of defaults is indeed expected to be the same for a similar CQS. Given however the scarcity of defaults of public sector obligors, this could bias the computed default rates, leading to underestimation of risk. Given the prudential objectives of the CRR, the ESAs deem appropriate not to include these types of issuers in the calculation of the quantitative factors.	No change.