



European Securities and
Markets Authority

Technical Advice

on the feasibility of a network of small and medium-sized CRAs

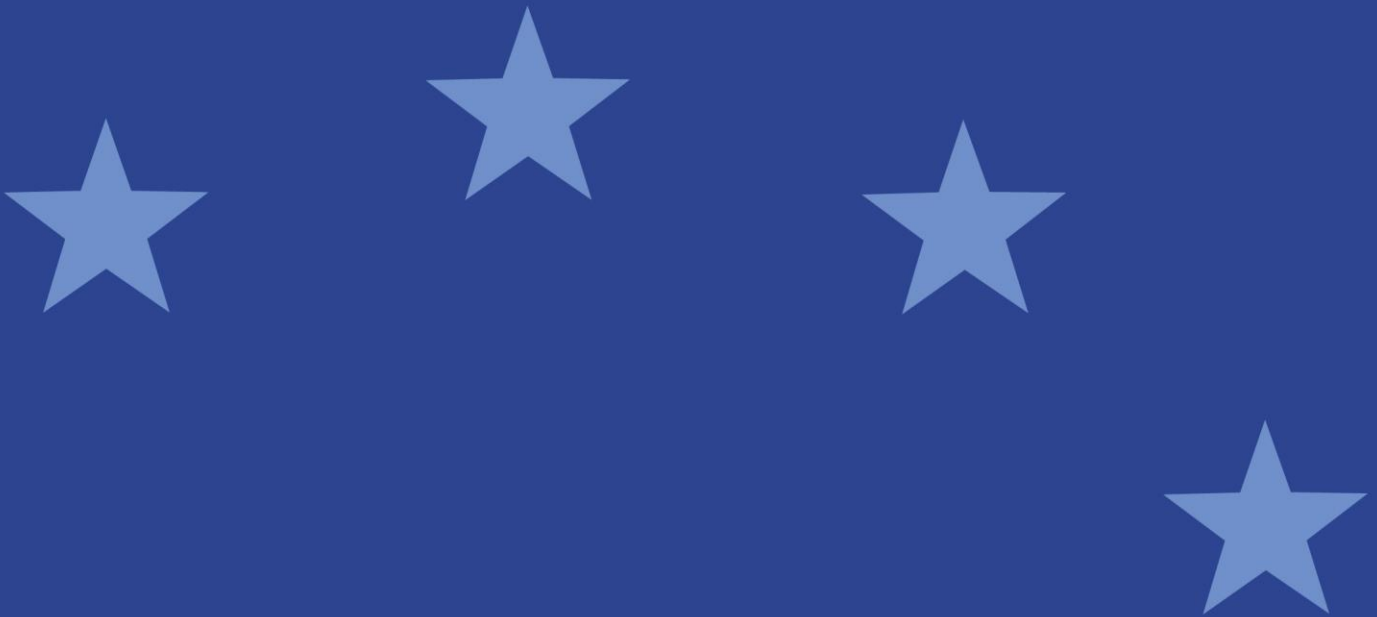


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Acronyms used

CEREP	Central Repository of rating data reported by CRAs to ESMA according to Commission Delegated Regulation (EU) No 448/2012 of 21 March 2012 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 shall make available in a central repository established by the European Securities and Markets Authority
CRA	Credit rating agency
CRA Regulation	Regulation (EC) No 1060/2009 of the European Parliament and of the Council (as last amended by Regulation (EU) No 462/2013, so-called CRA III Regulation)
Commission Delegated Regulation	Commission Delegated Regulation (EU) No 272/2012 supplementing Regulation (EC) No 1060/2009 of the European Parliament and of the Council with regard to fees charged by the European Securities and Markets Authority to credit rating agencies
ESMA	European Securities and Markets Authority
SF ratings	Structured-finance ratings

I. Executive Summary

Reasons for publication

Article 39b(3) of the CRA Regulation states that the Commission shall adopt a report by end 2013 – after receiving ESMA’s technical advice – regarding the feasibility of a network of small and medium-sized credit rating agencies in order to increase competition in the market. The Commission’s report shall evaluate financial and non-financial support for the creation of such a network, taking into consideration the potential conflicts of interest arising from such public funding.

In its request for advice, the Commission asked ESMA to provide quantitative and qualitative information concerning the segment of small and medium-sized CRAs, including data on the number of registered CRAs, types of ratings issued, turnover of CRAs from credit rating and ancillary services as well as information on the existence of private networks of small and medium-sized CRAs. The Commission also requested information concerning barriers to entry to the top end of the market.

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In this technical advice, ESMA provides information on all registered and certified CRAs. In particular, the technical advice provides information on small and medium-sized CRAs in the EU, and possible barriers to entry for companies that wish to conduct rating activities in the EU. The current advice relies on factual information available to ESMA through the CEREP database.

For the purposes of this advice, ESMA regards 19 out of 22 registered CRAs as small and medium-sized CRAs, taking into account the following factors: number of employees, scope of operations (as regards the types of ratings issued), group structure and financial turnover. According to these criteria, Fitch, Moody’s and S&P may not be regarded as small and medium-sized CRAs. In addition, the application of these criteria also leads to the consideration that the 2 certified CRAs are also to be classified as small and medium-sized CRAs. It should nonetheless be noted that the group of small and medium-sized CRAs is not homogenous, with differences in size and in the scope of operations.

The main findings of this advice are:

- The 22 registered CRAs are established in 11 EU Member States;
 - None of the small and medium-sized CRAs cover the whole range of the five rating classes considered (corporates (non-financial), financials, insurance, sovereign and public finance, and structured finance). Whilst DBRS and BCRA cover four and three classes respectively, all the remaining small and medium-sized CRAs cover one or two rating classes only. This contrasts with Fitch, Moody’s and S&P that issue ratings for all five possible rating classes;
 - Small and medium-sized CRAs are mainly active in issuing corporate ratings. Within this rating type, four small and medium-sized CRAs issue a relatively high number of corporate ratings (CERVED and ICAP) or financial and insurance ratings (GBB and AM Best);
 - Only 6 of the small and medium-sized CRAs provide sovereign ratings (BCRA, Capital Intelligence, DBRS, European Rating, Feri Euro Rating (Feri) and Japan Credit Rating Agency (JCR)), whilst only one (DBRS) issues structured finance ratings;
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- As of end 2012 the majority of small and medium-sized CRAs issued solicited ratings only, whilst eight issued unsolicited ratings only. Three small and medium-sized CRAs (DBRS, JCR, and Scope) issued both solicited and unsolicited ratings, as was the case also for Fitch, Moody's and S&P;
- As regards geographical coverage of the small and medium-sized CRAs 6 out of 19 (AM Best, Capital Intelligence, Creditreform, DBRS, JCR and Scope) have a coverage that goes beyond one Member State when referring to corporate ratings. As regards the sovereign ratings type, three of the small and medium-sized CRAs cover more than one Member State (Capital Intelligence, Feri and JCR). In both of these ratings types, Fitch, Moody's and S&P's rating activities cover all Member States of the EU;
- In 2013, 96% of the supervisory fees were paid by S&P, Moody's, and Fitch, while their turnover from rating and ancillary services was equal to 88% of the total turnover of the 20 registered and certified CRAs in 2012.
- As of July 2013, 14 out of 19 small and medium-sized CRAs have been granted at least one of the regulatory exemptions provided for in the CRA Regulation.

Finally, and with reference to the current situation in the segment of small and medium-sized CRAs, ESMA is not aware of any private networks of small and medium-sized CRAs currently in place.

II. Introduction

1. The European Commission requested ESMA to provide Technical Advice on the feasibility of a network of smaller sized CRAs. In particular, the Commission asked ESMA to provide quantitative and qualitative information concerning the segment of small and medium-sized CRAs, including data on the number of registered CRAs, types of ratings issued, turnover of CRAs from credit rating and ancillary services as well as information on the existence of private networks of CRAs. The Commission also requested information concerning barriers to entry to the top end of the market.
2. Taking into account the number of employees, their scope of operations (as regards the types of ratings issued), the group structure and their financial turnover, for the purposes of this Technical Advice ESMA regards 19 out of 22 registered CRAs as small and medium-sized CRAs or smaller CRAs. Considering these factors, Fitch, Moody's and S&P may not be regarded as small and medium-sized CRAs. In addition, the application of these criteria also leads to the consideration that the 2 certified CRAs are also to be classified as small and medium-sized CRAs.
3. ESMA provides its technical advice based on the analysis of the periodic reporting obligations of CRAs to ESMA via the central repository CEREPEP. The database publishes rating activity and rating performance statistics of all registered and certified credit rating agencies in compliance with the CRA Regulation – including endorsed ratings¹. The repository was launched in February 2012 and is publicly accessible through a website. It allows the search and filter of statistics for individual CRAs for time periods of varying length and rating types of choice. As of now, CEREPEP covers a time series of at least 12 years² and comprises approx. 870,000 rating observations.
4. CEREPEP covers the main rating types, as follows: 'sovereign and public finance' ratings, 'corporate' (that includes non-financial, financial and insurance corporates) ratings and 'structured finance' ratings, leading to data categorised in five rating classes. Some other rating types assigned by CRAs are not in CEREPEP (e.g., project finance ratings).
5. In CEREPEP, corporate and sovereign ratings are reported by CRAs on a one entry per issuer-basis, although as regards sovereign ratings CEREPEP collects both long term and short term ratings. Therefore the rating assigned to securities issued by the same entity and the ratings assigned to the subordinated debt of an issuer are not captured. As regards structured finance ratings, CEREPEP requests CRAs to send all the ratings assigned to a certain transaction, including therefore also the ratings assigned to the mezzanine or more junior tranches. These collection criteria explain the discrepancy in overall numbers across rating types.
6. For the purpose of this technical advice, ESMA aggregated the CEREPEP raw data containing the information related to individual ratings reported by CRAs. The data included in the tables and figures below were filtered out to refer only to EU issuers and EU instruments ratings. This includes ratings issued by credit rating agencies which have both EU and non-EU legal entities as part of their group who also report the ratings issued by their non-EU entities (endorsed or not by the EU registered

¹ In addition, CEREPEP collects on a voluntary basis credit ratings issued in third countries by credit rating agencies neither certified nor registered in the Union but belonging to the same group as a registered credit rating agency.

² CRAs were requested to the rating data covering at least 10 years before entry into force of the CRA Regulation (Article 2(4) of CDR No 448/2012 on CEREPEP RTS).

agency).³

7. The analysis concerning outstanding credit ratings is presented with reference to the CRAs that had outstanding credit ratings as of December 2011 and 2012 and reported their data to CEREP. The CRAs that were registered and certified after July 2012 will report to CEREP in July – Sep 2013 and January – March 2014 and are therefore not included in the dataset used for this report: Axesor, Dagong Europe, Kroll Bond Rating Agency, Spread Research, and The Economist Intelligence Unit. For the same reason, all the tables refer to ratings issued in the EU-27 (excluding Croatia) as well as Iceland, Liechtenstein and Norway. This report is structured in the following way: Section III provides a factual overview of currently registered and certified CRAs with reference to their geographical scope of activity and the types and classes of ratings issued; Section 4 reports on the staff dedicated to compliance and elaborates on applicable fees and regulatory exemptions.

³ Besides S&P, Moody's, and Fitch, this refers only to 2 small and medium-sized CRAs: DBRS and AM Best.

III. Factual overview of the current registered and certified CRAs

III.I. List of registered and certified CRAs

8. As of 31 August 2013, 22 CRAs have been registered and two CRAs have been certified under the CRA Regulation. Of the 22 registered CRAs, 3 operate under a group structure in the EU and have registered in total 16 legal entities in the EU. Hence, the total number of legal entities registered in the EU is 35 (see Table 1).
9. Registered CRAs are currently established in 11 EU Member States – Bulgaria, Cyprus, Germany, Spain, France, Greece, Italy, Poland, Portugal, Slovenia and UK. However, 25 of those legal entities CRAs are established in Germany, United Kingdom, Italy and France (respectively eight, seven, six and four).
10. As regards other services related to ratings, 7 of the small and medium-sized CRAs issue scoring services as part of their ancillary services⁴.

Table 1. List of CRAs registered and certified by ESMA (as of 31 August 2013)

Credit Rating Agency	Country of residence	Status	Effective date of registration
Euler Hermes Rating GmbH	DE	Registered	16/11/2010
Japan Credit Rating Agency Ltd	JP	Certified	06/01/2011
BCRA-Credit Rating Agency AD	BG	Registered	06/04/2011
Feri EuroRating Services AG	DE	Registered	14/04/2011
Creditreform Rating AG	DE	Registered	18/05/2011
Scope Credit Rating GmbH (formerly PSR Rating GmbH)	DE	Registered	24/05/2011
ICAP Group SA	GR	Registered	07/07/2011
GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH	DE	Registered	28/07/2011
ASSEKURATA Assekuranz Rating-Agentur GmbH	DE	Registered	18/08/2011
Companhia Portuguesa de Rating, S.A. (CPR)	PT	Registered	26/08/2011
AM Best Europe-Rating Services Ltd. (AMBERS)	UK	Registered	08/09/2011
DBRS Ratings Limited	UK	Registered	31/10/2011
Fitch	DE, ES, FR, IT, PL, UK (2 entities)	Registered	31/10/2011
Moody's	CY, DE, ES, FR, IT, UK	Registered	31/10/2011
Standard & Poor's	FR, IT, UK	Registered	31/10/2011
CRIF S.p.A.	IT	Registered	22/12/2011
Capital Intelligence (Cyprus) Ltd	CY	Registered	08/05/2012
European Rating Agency, a.s.	SK	Registered	30/07/2012
Axesora SA	ES	Registered	01/10/2012
CERVED Group S.p.A.	IT	Registered	20/12/2012
Kroll Bond Rating Agency	US	Certified	20/03/2013
The Economist Intelligence Unit Ltd	UK	Registered	03/06/2013
Dagong Europe Credit Rating Srl (Dagong Europe)	IT	Registered	13/06/2013

⁴ Scoring services might also be provided by CRAs through separate legal entities.



Credit Rating Agency	Country of residence	Status	Effective date of registration
Spread Research SAS	FR	Registered	01/07/2013

Source: ESMA website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>)

III.II. Geographical scope of activity

11. As regards geographical coverage of the small and medium-sized CRAs 6 out of 19 (AM Best, Capital Intelligence, Creditreform, DBRS, JCR and Scope) have a coverage that goes beyond one Member State when referring to corporate ratings (see Table 2). For the sovereign ratings type, three of the small and medium-sized CRAs cover more than one Member State (Capital Intelligence, Feri and JCR) (see Table 5).
12. In both of these ratings types, Fitch, Moody's and S&P's rating activities cover all Member States of the EU.
13. The CRA Regulation allows registered CRAs to endorse credit ratings issued in non-EU countries. The Regulation requires ESMA to verify that the requirements of third-country CRA regimes are "as stringent as" the European regulatory framework. As of September 2013, CRAs can endorse ratings issued in the US, Canada, Mexico, Argentina, Brazil, Australia, Singapore, Hong Kong, and Japan.
14. As of end 2012, of the small and medium sized CRAs only DBRS endorses ratings from third countries. In actual fact most of the ratings of DBRS are endorsed under this regime.

Table 2. EU outstanding corporate, financials and insurance credit ratings by country of issuer (as of 31 December 2012)

Country of issuer	AM Best Europe	ASSEK URATA	BCRA	Capital Intelligence	CERVE D	CPR	Creditreform	CRIF	DBRS	Euler Hermes Rating	GBB	ICAP	JCR	Scope Credit Rating	Fitch	Moody's	Standard & Poor's
Austria	1						3							4	16	27	33
Belgium	2								5						25	23	45
Bulgaria			23												8		6
Cyprus	1			6											6	8	8
Czech Republic				8										1	5	6	9
Denmark									2						19	22	37
Estonia																3	1
Finland	1												2		19	18	41
France	13								7				2	1	95	129	296
Germany	27	41					83		10	28	185		1	60	134	141	344
Greece				12								1958			9	2	16
Hungary				6											4	1	12
Iceland																2	3
Ireland	25								8						31	68	83
Italy	2				29078			62	1					5	88	55	126
Latvia																1	
Liechtenstein	4														1	1	4
Lithuania															1		2
Luxembourg	7						5								47	120	83
Malta	1														4	1	5
Netherlands	2						1		8					1	63	175	158
Norway									2						29	26	39
Poland	1			10											20	7	21
Portugal						7			7						25	19	28
Romania				6											9		1
Slovakia				4											4	2	1
Slovenia	1			12										3	12	2	4
Spain	5								10				1		86	57	75
Sweden	2								9					1	16	48	89
United Kingdom	67						1		23				2	1	467	343	444
Total	162	41	23	64	29078	7	93	62	92	28	185	1958	8	77	1243	1307	2014

Source: CEREP

III.III. Classes of ratings issued

15. Table 3 below refers to the classes of outstanding ratings effectively assigned by all the registered and certified CRAs as of 31 December 2012. The only registered CRAs that assign credit ratings for corporates, financial institutions, insurance companies, sovereigns, and SF products are Fitch, Moody's and S&P. Among the small and medium-sized registered CRAs, DBRS is active in four out of five rating classes, BCRA issues credit ratings belonging to three rating classes, and all the remaining CRAs are active in one or two rating classes. In turn, the prevalent rating type among the small and medium-sized CRAs is corporate ratings (issued by all such CRAs except six), while their scope of operations is limited as regards financial ratings (7), insurance ratings (3), sovereign ratings (6), and SF ratings (1).

Table 3. Classes of EU outstanding ratings (as of 31 December 2012)

Credit Rating Agency	Types of ratings issued	Corporate	Financials	Insurance	Sovereign and Public Finance	Structured Finance
AM Best Europe-Rating Services Ltd. (AMBERS)	2	Yes	No	Yes	No	No
ASSEKURATA Assekuranz Rating-Agentur GmbH	1	No	No	Yes	No	No
BCRA-Credit Rating Agency AD	3	No	Yes	Yes	Yes	No
Capital Intelligence (Cyprus) Ltd	2	No	Yes	No	Yes	No
CERVED Group S.p.A.	1	Yes	No	No	No	No
Companhia Portuguesa de Rating, S.A. (CPR)	2	Yes	Yes	No	No	No
Creditreform Rating AG	1	Yes	No	No	No	No
CRIF S.p.A.	1	Yes	No	No	No	No
DBRS Ratings Limited	4	Yes	Yes	No	Yes	Yes
Euler Hermes Rating GmbH	2	Yes	Yes	No	No	No
European Rating Agency, a.s.	1	No	No	No	Yes	No
Feri EuroRating Services AG	1	No	No	No	Yes	No
GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH	1	No	Yes	No	No	No
ICAP Group SA	1	Yes	No	No	No	No
Japan Credit Rating Agency Ltd ⁵	3	Yes	Yes	No	Yes	No
Scope Credit Rating GmbH	1	Yes	No	No	No	No
Fitch	5	Yes	Yes	Yes	Yes	Yes
Moody's	5	Yes	Yes	Yes	Yes	Yes
Standard & Poor's	5	Yes	Yes	Yes	Yes	Yes

Source: CEREP

III.IV. Number of outstanding credit ratings

16. Table 4 below provides an overview of outstanding ratings by rating class at the end of 2011 and 2012. It should be noted that for all rating classes other than SF, the data refers to rated entities. For SF ratings the numbers refer to total number of issuances.

⁵ Ratings issued by certified CRAs on EU issuers or instruments issued in the EU may not be used for regulatory purposes (Article 5(1) CRA Regulation).

17. With reference to credit ratings outstanding at the end of 2012, Table 4 shows that for seven small and medium-sized CRAs corporate ratings represent the core area of operation, while financial ratings are the main area in three cases, insurance and sovereign ratings respectively in two cases and for one small and medium-sized CRA SF ratings represent the first area of operation.
18. With reference to corporate ratings, CERVED is by far the largest issuer of ratings in number of ratings outstanding (93% of total ratings assigned by small and medium-sized CRAs to corporate issuers), followed at a distance by ICAP (6,2%), while the eight other CRAs together assign in total less than 1% of the number of this type of ratings. The number of credit ratings assigned to corporate issuers by CERVED and ICAP is also higher than Fitch, Moody's and S&P.
19. CERVED's and ICAP's high number of total outstanding corporate ratings can be explained by the particularities in the reporting standards to CEREP and that these two CRAs are mainly active in the segment of rating smaller corporates than Fitch, Moody's and S&P. The CEREP database solely refers to the number of rated entities, not the actual number of financial debt contracts rated. Given that small companies issue less numerous debt issues that are rated than large companies, and that the effect of multiple rated debt issuances by large corporation is not fully reflected in the database, the proportion of outstanding ratings appears much higher for CRAs' which have as their customer base mainly smaller corporations.
20. As regards the small and medium-sized CRAs that are focused on financial, insurance, and sovereign ratings, these account for approx. 17%, 30% and 15%, respectively in the total number of rated issuers. GBB and AM Best focus nearly exclusively on financial and insurance ratings, respectively. For financial ratings, as of end 2012 GBB issued 53% of the ratings assigned to financial issuers for small and medium CRAs and at the same time only 37% of the ratings of the same type issued by Moody's (the smallest of Fitch, Moody's and S&P in this segment). As regards ratings to corporate insurance issuers, AM Best assigned 76% of all ratings issued by small and medium CRA's and a higher number than Fitch and Moody's, representing overall 23% of the total number of issuers in this segment. The same observations can be made regarding this data as in the paragraph 19 above, as the CEREP dataset refers to number of rated entities and not total issuances.
21. Finally, apart from Fitch, Moody's and S&P, only DBRS was active in the structured finance market as of end 2012. The number of SF ratings of DBRS constituted 3% of the total number of SF ratings, representing 10% of the total number of issuances rated by Fitch, Moody's and S&P, respectively. From 2011 to 2012, DBRS's SF ratings issuances increased significantly.
22. From the change in the number of outstanding credit ratings from 2011 and 2012, one can observe the following: a decline in corporate and structure finance ratings; a modest increase in sovereign ratings; and relative stable numbers in financials and insurances rating classes. The decline in corporate ratings was exclusively driven by the strong decrease in outstanding ratings of CERVED and ICAP. The vast majority of the other small and medium CRAs, as well as Fitch, Moody's and S&P increased their total number of outstanding corporate ratings. As regards structured finance ratings whilst Fitch, Moody's and S&P decreased their numbers, the only other CRA active in this segment, DBRS, increased the number of outstanding ratings. The increase in sovereign ratings was driven by the small and medium CRAs, particularly by DBRS.

Table 4. EU outstanding credit ratings (as of 31 December 2011 and 31 December 2012)

Credit Rating Agency	Corporate		Financials		Insurance		Sovereign and Public Finance		Structured Finance		Total		Variation 2012/2011
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	
AM Best Europe-Rating Services Ltd. (AMBERS)	18	13	0	0	154	149	0	0	0	0	172	162	-5,8%
ASSEKURATA Assekuranz Rating-Agentur GmbH	0	0	0	0	45	41	0	0	0	0	45	41	-8,9%
BCRA-Credit Rating Agency AD	0	0	12	16	6	7	4	5	0	0	22	28	27,3%
Capital Intelligence (Cyprus) Ltd	0	0	68	64	0	0	28	6	0	0	96	70	-27,1%
CERVED Group S.p.A.	57782	29078	0	0	0	0	0	0	0	0	57782	29078	-49,7%
Companhia Portuguesa de Rating, S.A. (CPR)	8	6	0	1	0	0	0	0	0	0	8	7	-12,5%
Creditreform Rating AG	78	93	0	0	0	0	0	0	0	0	78	93	19,2%
CRIF S.p.A.	62	62	0	0	0	0	0	0	0	0	62	62	0,0%
DBRS Ratings Limited	10	13	76	79	0	0	20	60	317	443	423	595	40,7%
Euler Hermes Rating GmbH	24	25	4	3	0	0	0	0	0	0	28	28	0,0%
European Rating Agency, a.s.	0	0	0	0	0	0	6	6	0	0	6	6	0,0%
Feri EuroRating Services AG	0	0	0	0	0	0	25	25	0	0	25	25	0,0%
GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH	0	0	182	185	0	0	0	0	0	0	182	185	1,6%
ICAP Group SA	3190	1958	0	0	0	0	0	0	0	0	3190	1958	-38,6%
Japan Credit Rating Agency Ltd	6	6	4	2	0	0	38	38	0	0	48	46	-4,2%
Scope Credit Rating GmbH	2	77	0	0	0	0	0	0	0	0	2	77	3750,0%
Sub-total	61180	31331	346	350	205	197	121	140	317	443	62169	32461	-47,8%
Fitch	613	628	604	560	57	55	351	355	5156	4861	6781	6459	-4,7%
Moody's	758	764	525	500	41	43	239	247	4910	4438	6473	5992	-7,4%
Standard & Poor's	914	953	685	703	361	358	217	215	5144	4705	7321	6934	-5,3%
Sub-total	2285	2345	1814	1763	459	456	807	817	15210	14004	20575	19385	-5,8%
Grand Total	63465	33676	2160	2113	664	653	928	957	15527	14447	82744	51846	-37,3%

Source: CEREP

III.V. Number of outstanding sovereign ratings

23. Table 5 provides a breakdown into subclasses of sovereign rated issuers in 2011 and 2012. Out of the six small and medium-sized CRAs active in this area, four were active in the provision of sovereign ratings⁶ and three provided sub-sovereign ratings⁷ – only one provided both of these classes of ratings. As regards both sovereign ratings and sub-sovereign ratings, it should be noted that the proportion of ratings provided by small and medium CRAs increased between 2011 and 2012. This is mainly explained by the significant increase in the number of sovereign ratings issued by DBRS in this period – this brings them close to the level of ratings of Moody's for this class of ratings. None of the small and medium-sized CRAs rated supra-national organizations⁸ or public entities.

Table 5. Outstanding sovereign ratings issued in the EU by rating type (as of 31 December 2011 and 31 December 2012)

Credit Rating Agency Name	Sovereigns		Sub-sovereigns / municipalities		Supranational organizations		Public entities		Total	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
BCRA-Credit Rating Agency AD	0	0	4	5	0	0	0	0	4	5
Capital Intelligence (Cyprus) Ltd	28	6	0	0	0	0	0	0	28	6
DBRS Ratings Limited	20	60	0	0	0	0	0	0	20	60
European Rating Agency, a.s.	0	0	6	6	0	0	0	0	6	6
Feri EuroRating Services AG	25	25	0	0	0	0	0	0	25	25
Japan Credit Rating Agency Ltd	34	34	4	4	0	0	0	0	38	38
Sub-total	107	125	14	15	0	0	0	0	121	140
Fitch	88	88	248	250	15	17	0	0	351	355
Moody's	74	77	88	75	0	1	77	94	239	247
Standard & Poor's	120	120	91	88	0	0	6	7	217	215
Sub-total	282	285	427	413	15	18	83	101	807	817
Grand Total	389	410	441	428	15	18	83	101	928	957

Source: CEREP - As CEREP collects both long term and short term ratings assigned to the same entity certain CRAs may have more than 27 ratings assigned across the 27 EU Member States. **Note:** With the exception of BCRA, all the remaining Credit Rating Agencies in this table provide ratings for more than one Member State.

III.VI. Solicited and unsolicited ratings

24. The CRA Regulation allows credit rating agencies to distribute solicited and/or unsolicited ratings. Generally, unsolicited ratings are provided by CRAs that operate on the basis of an investor-pays model. Table 6 below shows that by the end of 2012 five small and medium-sized CRAs (Capital Intelligence, CERVED, CRIF, Feri, and ICAP) distributed only unsolicited ratings through their investor-pays model. On the other hand, eight CRAs (AM Best, Assekurata, BCRA, CPR, Creditreform,

⁶ These are local or foreign currency credit ratings where the entity rated is a State.

⁷ These are credit ratings where the issuer of the debt or financial obligation, debt security or other financial instrument is a regional or local authority of a State.

⁸ Rated entity is the issuer is an international financial institution established by two or more States which has the purpose of mobilising funding and providing financial assistance for the benefit of the members of that international financial institution which are experiencing or threatened by severe financing problems



Euler Hermes, ERA, and GBB) issue only solicited ratings. Like Fitch, Moody's and Fitch, DBRS and Scope had both solicited and unsolicited ratings outstanding.

Table 6. Solicitation type by product (as of 31 December 2012)

Credit Rating Agency	Corporate		Financials		Insurance		Sovereign and Public Finance		Structured Finance		Total EU outstanding ratings	
	Solicited	Unsolicited	Solicited	Unsolicited	Solicited	Unsolicited	Solicited	Unsolicited	Solicited	Unsolicited	Solicited	Unsolicited
AM Best Europe-Rating Services Ltd. (AMBERS)	13	0	0	0	149	0	0	0	0	0	162	0
ASSEKURATA Assekuranz Rating-Agentur GmbH	0	0	0	0	41	0	0	0	0	0	41	0
BCRA-Credit Rating Agency AD	0	0	16	0	7	0	5	0	0	0	28	0
Capital Intelligence (Cyprus) Ltd	0	0	0	64	0	0	0	6	0	0	0	70
CERVED Group S.p.A.	0	29078	0	0	0	0	0	0	0	0	0	29078
Companhia Portuguesa de Rating, S.A. (CPR)	6	0	1	0	0	0	0	0	0	0	7	0
Creditreform Rating AG	93	0	0	0	0	0	0	0	0	0	93	0
CRIF S.p.A.	0	62	0	0	0	0	0	0	0	0	0	62
DBRS Ratings Limited	12	1	77	2	0	0	42	18	443	0	574	21
Euler Hermes Rating GmbH	25	0	3	0	0	0	0	0	0	0	28	0
European Rating Agency, a.s.	0	0	0	0	0	0	6	0	0	0	6	0
Feri EuroRating Services AG	0	0	0	0	0	0	0	25	0	0	0	25
GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH	0	0	185	0	0	0	0	0	0	0	185	0
ICAP Group SA	0	1958	0	0	0	0	0	0	0	0	0	1958
Japan Credit Rating Agency Ltd	6	0	1	1	0	0	38	0	0	0	45	1
Scope Credit Rating GmbH	36	41	0	0	0	0	0	0	0	0	36	41
Sub-total	191	31140	283	67	197	0	91	49	443	0	1205	31256
Fitch	518	110	550	10	47	8	296	59	4861	0	6272	187
Moody's	760	4	499	1	43	0	232	15	4438	0	5972	20
Standard & Poor's	951	2	690	13	316	42	189	26	4705	0	6851	83
Sub-total	2229	116	1739	24	406	50	717	100	14004	0	19095	290
Grand Total	2420	31256	2022	91	603	50	808	149	14447	0	20300	31546

IV. CRAs' compliance costs

25. ESMA has also been requested by the Commission to provide any indication of barriers to entry that it may identify. Given the limited timeframe available for this report, however, a wider analysis of barriers to entry in the CRA market will be undertaken by 2015 in the context of the regulatory provisions regarding the assessment of the competitive landscape (Article 39(5) of the CRA Regulation).
26. In this regard, at this stage, ESMA may provide information on the observable compliance costs that are borne as a direct result of the CRA Regulation. Such costs are those linked to registration and to the on-going supervision by ESMA. Moreover, the CRA Regulation allows smaller CRAs to reduce their regulatory burden by asking ESMA to be exempted from certain compliance requirements: the present section provides the available information also in this respect. Not included in the current analysis are the costs that may be borne by small and medium-sized CRAs to adapt their systems and staff to the requirements of the CRA Regulation.
27. Finally, the endorsement and certification regimes allow for the use in the EU of ratings issued in third countries. This has allowed CRAs to provide ratings on the basis of ratings issued in third countries and thus to benefit – at least initially - from group synergies and reduce initial start-up costs and grow as shown above in the analysis of the several asset classes.

IV.I Registration and Supervisory fees paid to ESMA by CRAs

28. The CRA Regulation (Article 19) states that ESMA shall charge registration and supervisory fees to the CRAs to fully cover ESMA's necessary expenditure relating to the registration and supervision of credit rating agencies and the reimbursement of any costs incurred by competent authorities as a result of a delegation of supervisory tasks. In addition, Article 19 specifies that the amount of registration and supervisory fees shall be proportionate to the turnover of the credit rating agency concerned.
29. As regards supervisory fees, the Commission Delegated Regulation (Article 5(1)) stipulates that a registered credit rating agency shall be exempted from paying an annual supervisory fee where its total revenues as published in its most recent audited accounts is less than EUR 10 million, or in case it belongs to a group of credit rating agencies with aggregate total revenues of less than EUR 10 million.⁹ As specified in Recital 3 of the Delegated Regulation, annual supervisory fees should not become a burden for new entrants to the credit rating market. Moreover, small CRAs are expected to produce significantly less supervisory costs than larger ones according to the Delegated Regulation. In this context it should be noted that under Article 6(8) of the Commission Delegated Regulation, in the first year of registration, CRAs pay an supervisory fee of EUR 500 for each complete month in the time period between the date of registration and the end of the financial year.
30. The same proportionality principle applies for the registration and certification fees. The Commission Delegated Regulation provides (Art. 6) that registration fees must be proportionate with the size and activity of the CRAs, with respect to whether the CRA intends to issue structured finance instruments ratings, whether a CRA has branches and whether it plans to endorse ratings.
31. As regards registration fees, under the terms of the CRA Regulation most of the small and medium-sized CRAs have been registered by the National Competent Authorities and therefore no registration

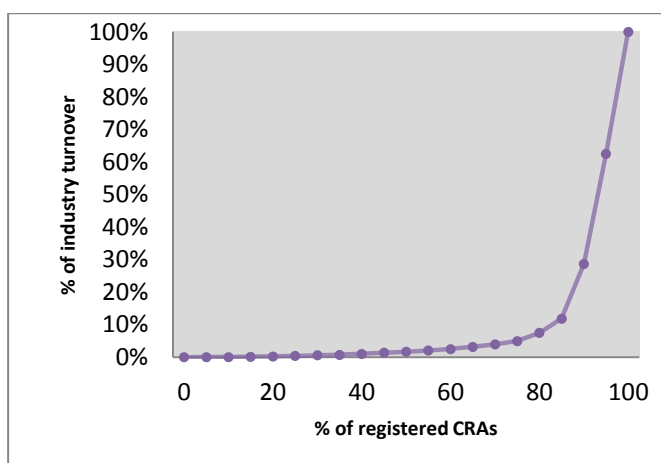
fee was paid to ESMA. So far only 4 of the 22 registered CRAs have been registered directly by ESMA (Axesor, EIU, Dagong Europe and Spread Research) as well as one of the two certified CRAs (Kroll). Registration fees have varied between 2 000 EUR and 40 000 EUR according to the CRAs' size and organizational features.

32. The Commission Delegated Regulation also provides (Article 3) that for the purposes of the calculation of the annual supervisory fee the applicable turnover shall be the revenues of a CRA as published in its audited accounts generated from rating activities and ancillary services. The applicable turnover is determined by ESMA from the audited turnover generated from rating activities and ancillary services in the previous financial year.

33. With respect to the turnover generated in 2012, Fitch, S&P and Moody's - the biggest CRAs in terms of turnover - represented approximately 88% of total turnover. Thus the small and medium-sized CRA's represented 12% of total turnover.

34. Figure 1 represents the distribution of income from ratings and ancillary services in the CRA industry as of end 2012. As may be observed from Figure 1, on the one hand, the bottom 80% of CRAs had approximately 7% of the total turnover from ratings and ancillary services. On the other hand, 20% of CRAs generated 93% of all income.

Figure 1: Cumulative distribution of CRA turnover from ratings and ancillary services 2012



35. As regards supervisory fees, in 2013 96% of these were paid by S&P (39%), Moody's (38%), and Fitch (19%) on the basis of the CRAs' financial accounts for 2012. Two other CRAs contributed in total to the 4% of the supervisory fees charged by ESMA¹⁰.

36. Taking into account the proportions of supervisory fees and CRAs' turnover, the EUR 10 million exemption threshold resulted in a redistribution of supervisory fees equal to 8 percentage points from the latter CRAs to S&P, Moody's, and Fitch.

IV.II Compliance exemptions

¹⁰ 2 other CRAs also paid supervisory fees as they had applicable turnover above EUR 10 million, however these accounted for minor amounts : Japan Credit Rating (paid the fixed fee applicable for certified CRAs), and EIU which paid the applicable fixed supervisory fee for the first year of registration.

37. According to the CRA Regulation, a credit rating agency that has fewer than 50 employees can request ESMA to be exempted from complying with the requirements regarding independent non-executive directors, the independent compliance function and analyst rotation, thus lowering the regulatory costs for such CRAs. CRAs with fewer than 50 employees qualify for requesting exemptions in case they can “demonstrate that those requirements are not proportionate in the view of the nature, scale and complexity of its business and the nature and range of issue of credit ratings” (Article 6(3) of the CRA Regulation). Following such a request for exemption, ESMA assesses whether all requirements are fulfilled. It is important that possible exemptions do not affect the level-playing field with respect to the fundamental requirements of the CRA Regulation.
38. As of end July 2013, five registered small and medium CRAs had more than 50 employees, i.e., 14 CRAs had less than 50 employees. According to the transparency reports issued by the registered CRAs, two of them are close to the 50-employee threshold (i.e., with 40 or more employees). ESMA has no indications that any of the CRAs are staying below the 50 employee threshold in order to be able to apply for the above mentioned regulatory exemptions.
39. So far, all of the 14 small and medium-sized CRAs have been granted by ESMA one or more of the following exemptions:
- independent non-executive director (Annex 1, Section A, point 2 of the CRA Regulation): 11 CRAs;
 - independent compliance function (Annex 1, Section A, point 5&6 of the CRA Regulation): 6 CRAs;
 - analyst rotation requirement (Article 7, point 4 of the CRA Regulation): 9 CRAs.
40. As regards the independent compliance function exemption, in most cases, small and medium-sized CRAs do not employ more than one full-time compliance officer. In some cases CRAs that have been granted this exemption have deemed it necessary to have an internal compliance officer for operational reasons. In the other cases, the CRAs that have obtained the said exemption use outsourced consultants or board members to undertake the compliance tasks.
41. Since the entry to force on 20 June 2013 of the CRA III Regulation, CRAs can also request ESMA to be exempted from the obligation to establish a review function (Annex 1, Section A, point 9 of the CRA Regulation). As of 31 August 2013, ESMA has not granted such an exemption.