

<b>Comments on EBA, EIOPA and ESMA joint Cobsultaion Paper JC-CP-2015-001 Draft Implementing Technical Standards on the allocation of credit assessments of ECAIs to an objective scale of credit quality steps</b>		<b>Deadline 10.Apr.2015 23:59 CET</b>
Company name:	Scope Ratings AG	
Disclosure of comments:	<p>EBA, ESMA and EIOPA will make all comments available on their website, except where respondents specifically request that their comments remain confidential.</p> <p><i>Please indicate if your comments on this CP should be treated as confidential, by deleting the word <b>Public</b> in the column to the left and by inserting the word <b>Confidential</b>.</i></p>	Public
<p>The question numbers below correspond to Joint Consultation Paper on Mechanistic references to credit ratings in the ESAs´ guidelines and recommendations (JC-CP- 2015-001).</p> <p><b>Please follow the instructions for filling in the template:</b></p> <ul style="list-style-type: none"> <li>⇒ <u>Do not</u> change the numbering in column "Reference".</li> <li>⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>.</li> <li>⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> <li>○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies.</li> <li>○ If your comment refers to sub-bullets/sub-paragraphs, please indicate this in the comment itself.</li> </ul> </li> </ul> <p><b>Please send the completed template to <a href="mailto:JointCommitteeConsultation@eiopa.europa.eu">JointCommitteeConsultation@eiopa.europa.eu</a> in MS Word Format, (our IT tool does not allow processing of any other formats).</b></p>		
Reference	Comment	
General Comment:	<p>Scope Ratings would like to thank the ESA’s for launching this important consultation and we hope that our contribution will help to finalize an ITS consistent with the objectives of Solvency II, CRD IV and CRA III Regulations.</p> <ol style="list-style-type: none"> <li>1. Question arises whether the analytical approach where the mapping methodology laid</li> </ol>	

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down in the draft implementing technical standards on the mapping of ECAI's credit assessments under Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and the Council on prudential requirements for credit institutions and investment firms ("the FI Mapping") is applicable towards the allocation of credit assessments of external credit assessment institutions in accordance with Directive 2009/138/EC of the European Parliament and of the Council ("the Insurance Mapping"), even though

- the FI Mapping refers to a scale with 6 Credit Quality Steps (CQS 1 - CQS 6);
  - the applied methodology to derive the FI Mapping was calibrated towards a scale with 6 Credit Quality Steps;
  - the Insurance Mapping refers to a scale with 7 Credit Quality Steps (CQS 0 - CQS 6);
  - the methodology applied to derive the FI Mapping does not provide for a further split of CQS 1 into CQS 0 and CQS 1 as suggested in the presented draft implementing technical standards for the Insurance Mapping;
  - the verbal definition of CQS 1 in the FI Mapping covers both CQS 0 and CQS 1 of the suggested allocation of credit assessments under the Insurance Mapping, but does not give guidance on what part of the definition should refer to a higher CQS and what part should refer to a worse CQS.
2. Question arises whether the draft implementing technical standard meets the main aspects to be considered for the development of a methodology for the mapping of ECAIs in Solvency II, which is that the mapping in the insurance framework should be consistent with the mapping in the banking framework.
- The proposed Insurance mapping would also apply to securitisations (Art 178). However, the FI Mapping which serves as basis for proposal explicitly excludes securitisations and ESA has been mandated to publish a separate mapping for securitisations. The draft RTS for such mapping have not been published yet, and it is unclear how consistency with the EBA mapping on Structured Finance will be reached.
3. The consultation paper is silent on the process for future reviews of the proposed mapping. As the rating universe and performance of ECAIs will develop over time, so may the grounds of the initial mapping change. To avoid underestimating insurance

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	<p>companies' credit risk as a consequence of altered rating performance of ECAI's, a regular revision process of the mapping needs to be defined.</p>	
<p>Question: In respect of smaller ECAIs further investigation of the mappings could be undertaken. Please submit your views.</p>	<ol style="list-style-type: none"> <li>1. The proposed mapping conflicts with the intention to reduce the foreclosure of a market already dominated by three undertakings. It rather manifests such market forces, since the absence of CQS 1 in the proposed FI Mapping would be further extended towards the absence of CQS 0 in the Insurance Mapping. Such extension lacks justification and is a constitutional disadvantage towards the promotion of small ECAI in the European Union.</li> <li>2. Under the JC's preferred option 5.2, the applied expert judgement in the allocation process of the six benchmarks for the corresponding seven CQS envisaged in Solvency II regulations further emphasizes the regulatory disadvantage of smaller ECAIs. ECAIs which did not receive CQS 1 in the proposed FI Mapping are now one step further away from the best achievable mapping.</li> <li>3. The proposed Insurance Mapping ignores that investors subject to Solvency II have invested more than 60% of their investments in debt products (2012; source: Insurance Europe), of which again almost 60% is invested in Sovereign bonds, FI debt and Covered Bonds (2013; source: Gesamtverband der deutschen Versicherungswirtschaft), i.e. asset classes with little to no historically observed default rate. Nevertheless CQS 0 and CQS 1 shall be granted either on the grounds of default rates for other asset classes, or because CRA qualify as a "benchmark CRA". This does not reflect the performance pattern of these asset classes. It also disadvantages smaller CRA in that they were not deemed "benchmark CRA" in the draft FI Mapping.</li> </ol> <p>A prudent mapping approach should allow rating correlation studies, where a small CRA's rating notations are compared to benchmark CRA's rating notations. If a high correlation can be observed, the same mapping shall apply to the small CRA as has been assigned to the benchmark CRA. It should also build on the strength of a CRA's methodology as documented through means of peer group analysis.</p>	
Article 1. ECAI Nr. 1		
Article 1. ECAI Nr. 2		
Article 1. ECAI Nr. 3		

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Article 1. ECAI Nr. 4		
Article 1. ECAI Nr. 5		
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Article 1. ECAI Nr. 22		
Article 1. ECAI Nr. 23		
Article 1. ECAI Nr. 24		
Article 1. ECAI Nr. 25	1. Scope Ratings disagrees with the proposed draft ITS on allocation of credit assessments of external credit assessment institutions in accordance with Directive 2009/138/EC of the European Parliament and of the Council for the above mentioned reasons.	

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Article 1. ECAI Nr. 26		
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Article 2.2		
Impact Assessment 1		
Impact Assessment 2		
Impact Assessment 3		
Impact Assessment 4.1		
Impact Assessment 4.2		
Impact Assessment 4.3		
Impact Assessment 4.4		
Impact Assessment 4.5		
Impact Assessment 5		