

---

18/07/2017

---

# Mapping of Rating-Agentur Expert RA GmbH's credit assessments under the Standardised Approach

---

## 1. Executive summary

2. This report describes the exercise carried out by the Joint Committee (JC) to determine the 'mapping'<sup>1</sup> of the credit assessments of Rating-Agentur Expert RA GmbH (RAEX).
3. The methodology applied to produce the mapping remains as specified in the Commission's Implementing Regulation (EU) 2016/1799 ('the Implementing Regulation') laying down Implementing Technical Standards (ITS) with regard to the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for credit risk in accordance with Articles 136(1) and (3) of the Regulation (EU) No 575/2013 of the European Parliament and the Council ('the CRR'). This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) CRR.
4. The mapping neither constitutes the one which the European Securities and Markets Authority (ESMA) shall report on in accordance with Article 21(4b) of Regulation (EC) No 1060/2009 ('the CRA Regulation') with the objective of allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity<sup>2</sup> nor should be understood as a comparison of the rating methodologies of RAEX with those of other ECAIs. This mapping should however be interpreted as the correspondence of the rating categories of RAEX with a regulatory scale which has been defined for prudential purposes. This implies that an appropriate degree of prudence may have been applied wherever not sufficient evidence has been found with regard to the degree of risk underlying the credit assessments.
5. As described in Recital 12 of the Implementing Regulation, 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 information, with the view to balancing prudential with market concerns. Therefore, the relevance of quantitative factors for deriving the mapping should be relaxed. This allows ECAIs which present limited quantitative information to enter

---

<sup>1</sup> According to Article 136(1), the 'mapping' is the correspondence between the credit assessments of and ECAI and the Credit Quality Steps (CQS) set out in Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR).

<sup>2</sup> In this regard please see [https://www.esma.europa.eu/sites/default/files/library/esma\\_2015-1473\\_report\\_on\\_the\\_possibility\\_of\\_establishing\\_one\\_or\\_more\\_mapping.pdf](https://www.esma.europa.eu/sites/default/files/library/esma_2015-1473_report_on_the_possibility_of_establishing_one_or_more_mapping.pdf).

the market and increases competition. Updates to the mapping should be made wherever this becomes necessary to reflect additional quantitative information collected after the entry into force of the revised draft ITS.

6. The resulting mapping tables have been specified in Annex III of the revised draft ITS on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of the CRR. Figure 1 below shows the result for the only rating scale of RAEX.

Figure 1: Mapping of RAEX's International credit rating scale

<b>Credit assessment</b>	<b>Credit quality step</b>
<b>AAA</b>	<b>1</b>
<b>AA</b>	<b>1</b>
<b>A</b>	<b>2</b>
<b>BBB</b>	<b>3</b>
<b>BB</b>	<b>4</b>
<b>B</b>	<b>5</b>
<b>CCC</b>	<b>6</b>
<b>CC</b>	<b>6</b>
<b>C</b>	<b>6</b>
<b>D</b>	<b>6</b>
<b>E</b>	<b>6</b>

## 2. Introduction

7. This report describes the exercise carried out by the JC to determine the ‘mapping’ of the credit assessments of RAEX.
8. RAEX is a credit rating agency that has been registered with ESMA in 1 December 2015 and therefore meets the conditions to be an eligible ECAI<sup>3</sup>.
9. The methodology applied to produce the mapping remains as specified in the Implementing Regulation, which employs a combination of the provisions laid down in Article 136(2) of the CRR including quantitative and qualitative factors. The quantitative information reflects the statistics on the rating activity and the performance of ECAIs established by ESMA in its Central Repository of credit rating data (CEREP)<sup>4, 5</sup>. The qualitative information was collected bilaterally from RAEX.
10. The following sections describe the rationale underlying the mapping exercise carried out by the JC to determine the mappings. With respect to the quantitative requirements used to perform the mapping, in case of ECAIs for which limited quantitative information is available the mapping has been performed following Article 6 of the Implementing Regulation. Section 3 describes the relevant ratings scales of RAEX for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of RAEX’s main rating scale, whereas Sections 5 refers to the mapping of the remaining rating scale. The mapping tables are shown in Appendix 4 of this document.

## 3. RAEX credit ratings and rating scales

11. RAEX produces a variety of credit ratings; Column 2 of Figure 2 in Appendix 1 shows the relevant credit ratings that may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)<sup>6</sup>:
  - **Long-term issuer credit rating:** the credit rating of an entity represents the opinion of RAEX on the ability of that entity to fulfill its financial liabilities fully and in timely manner taking into account external stress- and support-factors.
  - **Sovereign government credit rating:** the level of the rating reflects RAEX's opinion on the ability of the government to meet both its current and future financial liabilities.

---

<sup>3</sup> The mapping does not contain any assessment of the registration process of RAEX carried out by ESMA.

<sup>4</sup> <http://cerep.esma.europa.eu/cerep-web/> These statistics are computed from individual rating information provided by registered or certified Credit Rating Agencies (CRAs) to ESMA, as required as per Article 11(2) of Regulation (EU) No 1060/2009 (CRA Regulation).

<sup>5</sup> The last reporting period for which data are available in CEREP is the second semester of 2015.

<sup>6</sup> As explained in recital 4 ITS, Article 4(1) CRA allows the use of the credit assessments for the determination of the risk-weighted exposure amounts as specified in Article 113(1) CRR as long as they meet the definition of credit rating in Article 3(1)(a) CRA.

- **Reliability credit rating:** represents an opinion of RAEX regarding the ability of the insurance company to fulfill its current and future liabilities to the policyholders and beneficiaries, taking into account external stress and support-factors.

12. RAEX assigns these credit ratings to two different rating scales as illustrated in column 3 of Figure 2 in Appendix 1. Therefore, a specific mapping has been prepared for the following rating scales:

- **International credit rating scale:** the specification of this rating scale is described in Figure 3 of Appendix 1.
- **International reliability rating scale:** the specification of this rating scale is described in Figure 4 of Appendix 1.

13. The mapping of the international credit rating scale is explained in Section 4 and it has been derived in accordance with the quantitative and qualitative factors specified in the Implementing Regulation.

14. The mapping of the international reliability rating scale is explained in Section 5 and it has been indirectly derived from the mapping of the long-term credit rating scale and the internal relationship established by RAEX between these two scales, as specified in Article 13 of the Implementing Regulation.

## 4. Mapping of RAEX's international credit rating scale

15. The mapping of the International credit rating scale has consisted of two differentiated stages, where quantitative and qualitative factors were considered.

16. In the first stage, the quantitative factors referred to in Article 1 of the Implementing Regulation have been taken into account to differentiate between the levels of risk of each rating category. The long-run default rate of a rating category has been calculated in accordance with Article 6 of the Implementing Regulation, as a sufficient number of credit ratings is not available.

17. In a second stage, the qualitative factors proposed in Article 7 of the Implementing Regulation have been considered to challenge initial mapping produced in the previous stage.

### 4.1. Initial mapping based on the quantitative factors

#### 4.1.1. Calculation of the long-run default rates

18. CEREP did not reflect information regarding the credit ratings issued by RAEX. Therefore the allocation of Credit Quality Steps (CQS) has been made in accordance with Article 6 of the Implementing Regulation, as shown in Figure 5 of Appendix 3.

19. For rating categories D and E, no calculation of default rate has been made since it already reflects a 'default' situation.

#### 4.1.2. Mapping proposal based on the long-run default rate

13. As illustrated in Figure 6 in Appendix 4, the assignment of the rating categories to CQS was initially made in accordance with Article 6 of the Implementing Regulation. Therefore, the number of defaulted and non-defaulted rated items have been used together with the prior expectation of the equivalent rating category of the international rating scale.

- **AAA/AA/A/BBB/BB/B:** the number of rated items in each of these categories is equal or larger than the respective minimum required number of observed items given the number of defaulted items in the rating category. Thus the credit quality steps associated with the AAA/AA, A, BBB, BB, B rating categories in the international rating scale (CQS 1, CQS 2, CQS 3, CQS 4 and CQS 5 respectively) can be assigned.
- **CCC-C:** since the CQS associated with the equivalent rating category of the international rating scale is 6, the proposed mapping for these rating categories is also CQS 6.

14. The calculation of the number of items assigned the same rating category weights withdrawn ratings by 50% as indicated in Article 4(3) of the Implementing Regulation.

15. The definition of default has been taken into account for the calculation of the quantitative factors, following Article 8 of the Implementing Regulation.

#### 4.2. Final mapping after review of the qualitative factors

20. The qualitative factors specified in Article 7 of the Implementing Regulation have been used to challenge the mapping proposed by the default rate calculation. Qualitative factors acquire more importance in the rating categories where quantitative evidence is not sufficient to test the default behavior<sup>7</sup>, as it is the case for all RAEX's rating categories.

21. The **definition of default** applied by RAEX and used for the calculation of the quantitative factors has been analysed:

- The types of default events considered are described in Appendix 2 and are consistent with events (a), (b), (c) and (d) of the benchmark definition of default specified in Article 4(4) of the Implementing Regulation.
- As RAEX does not have any default recorded, there is no information on the share of bankruptcy-related default events.

---

<sup>7</sup> The default behavior of a rating category is considered to be properly tested if the quantitative factors for that rating category are calculated under Articles 3 – 5 ITS.

No change is proposed to the mapping based on this factor.

22. The mapping proposal resulting from the quantitative factors complies with the qualitative criteria on the **meaning and relative position** of a rating category, as specified in Article 10 of the Implementing Regulation.
23. The time horizon reflected by the rating category refers to a up to three years horizon. However, the stability cannot be assessed given the lack of data. No adjustment is proposed based on this factor.
24. Finally, it should be highlighted the use of the long-run default benchmark associated with the equivalent category in the international rating scale as the **estimate of the long-run default rate** for the calculation of the quantitative factor of rating categories under Article 6 of the Implementing Regulation.
25. Regarding the estimate provided by RAEX of the long-term default rate associated with all items assigned the same rating category, according to Article 12 of the Implementing Regulation, it should be taken into account for the purpose of the mapping as long as it has been adequately justified. However, due to the limited quantitative data used to derive the estimate, this factor has not been further used to adjust the mapping.

## 5. Mapping of RAEX international reliability rating scale

26. RAEX also produces the reliability rating scale (see Figure 4 in Appendix 1). The internal relationship established by RAEX between these two rating scales has been used to derive the mapping of the reliability rating scale, following Article 13 of the Implementing Regulation. According to RAEX, the rating categories can be considered comparable to those of the international credit rating scale. Although the definitions of the rating categories refer to insurance companies, the mapping was derived from the meaning and relative position of the rating categories and the mapping of the corresponding categories of the international credit rating scale. The result of the mapping of this scale is shown in Figure 7 of Appendix 4.

## Appendix 1: Credit ratings and rating scales

Figure 2: Relevant credit ratings and rating scales

SA exposure classes	Name of credit rating	Credit rating scale
<b>Long-term ratings</b>		
Central governments or central banks	Sovereign government credit rating	International credit rating scale
Regional Governments or Local Authorities	Long-term issuer credit rating	International credit rating scale
Public Sector Entities	Long-term issuer credit rating	International credit rating scale
Multilateral Development Banks	Long-term issuer credit rating	International credit rating scale
Corporates	Long-term issuer credit rating	International credit rating scale
	Reliability credit rating	International reliability credit rating scale
Institutions	Long-term issuer credit rating	International credit rating scale
	Reliability credit rating	International reliability credit rating scale

Source: RAEX.

Figure 3: International credit rating scale

<b>Credit assessment</b>	<b>Meaning of the credit assessment</b>
AAA	The highest level of creditworthiness
AA	Very high level of creditworthiness
A	High level of creditworthiness
BBB	Moderately high level of creditworthiness
BB	Sufficient level of creditworthiness
B	Moderately low level of creditworthiness
CCC	Low level of creditworthiness
CC	Very low level of creditworthiness
C	The lowest level of creditworthiness
D	Default
E	License revocation or liquidation ( <i>Applicable only for banks</i> )

Source: RAEX.

Figure 4: Reliability rating scale

<b>Credit assessment</b>	<b>Meaning of the credit assessment</b>
AAA	The highest level of reliability.
AA	Very high level of reliability.
A	High level of reliability.
BBB	Moderately high level of reliability.
BB	Sufficient level of reliability.
B	Moderately low level of reliability.
CCC	Low level of reliability.
CC	Very low level of reliability.
C	The lowest level of reliability
D	Default
E	License withdraw or liquidation.

Source: RAEX.

## Appendix 2: Definition of default

RAEX defines a default as follows:

For all types of entity the non-fulfillment of any type of financial on time and in a full amount by the rated entity. This general definition of default is supplemented by additional cases depending on the specific characteristics of the type of the rated entity (such as banks, non-financial non-holding companies, insurance companies, regions and municipalities, sovereign and other).

The non-fulfillment of any type of financial liabilities (for all types of entity) or insurance liabilities (only for insurance companies) on time and in a full amount by the rated entity is considered as default by the Agency.

This general definition of default can be supplemented by additional cases depending on the specific characteristics of the type of the rated entity (such as banks, non-financial non-holding companies, insurance companies, regions and municipalities, sovereign and other).

Additional cases of default for each type of the rated entity are provided in on RAEX's website<sup>8</sup>.

Source: RAEX.

---

<sup>8</sup> [http://raexpert.eu/files/compliance/Definition\\_of\\_Default\\_.pdf](http://raexpert.eu/files/compliance/Definition_of_Default_.pdf)

## Appendix 3: Default rates of each rating category

Figure 5: Mapping proposal for rating categories with a non-sufficient number of credit ratings

	<b>AAA/AA</b>	<b>A</b>	<b>BBB</b>	<b>BB</b>	<b>B</b>	<b>CCC /CC/C</b>
CQS of equivalent international rating category	CQS 1	CQS 2	CQS 3	CQS 4	CQS5	CQS 6
N. observed defaulted items	0	0	0	0	0	0
Minimum N. rated items	0	0	0	0	0	n.a.
Observed N. rated items	0	0	0	0	0	0
<b>Mapping proposal</b>	<b>CQS 1</b>	<b>CQS 2</b>	<b>CQS 3</b>	<b>CQS 4</b>	<b>CQS 5</b>	<b>CQS 6</b>

Source: JC analysis based on CEREP data.

## Appendix 4: Mappings of each rating scale

Figure 6: Mapping of RAEX's international credit rating scale

<b>Credit assessment</b>	<b>Initial mapping based on quantitative factor (CQS)</b>	<b>Final review based on qualitative factors (CQS)</b>	<b>Main reason for the mapping</b>
<b>AAA</b>	1	1	The quantitative factors are representative of the final CQS.
<b>AA</b>	1	1	The quantitative factors are representative of the final CQS.
<b>A</b>	2	2	The quantitative factors are representative of the final CQS.
<b>BBB</b>	3	3	The quantitative factors are representative of the final CQS.
<b>BB</b>	4	4	The quantitative factors are representative of the final CQS.
<b>B</b>	5	5	The quantitative factors are representative of the final CQS.
<b>CCC</b>	6	6	The meaning and relative position of the rating category is representative of the final CQS.
<b>CC</b>	6	6	The meaning and relative position of the rating category is representative of the final CQS.
<b>C</b>	6	6	The meaning and relative position of the rating category is representative of the final CQS.
<b>D</b>	6	6	The meaning and relative position of the rating category is representative of the final CQS.
<b>E</b>	6	6	The meaning and relative position of the rating category is representative of the final CQS.

Figure 7: Mapping of RAEX's international reliability rating scale

<b>Credit assessment</b>	<b>Corresponding long-term issuer credit rating scale assessment</b>	<b>Initial mapping based on quantitative factors (CQS)</b>	<b>Final review based on qualitative factors (CQS)</b>	<b>Main reason for the mapping</b>
AAA	AAA	1	1	
AA	AA	1	1	
A	A	2	2	
BBB	BBB	3	3	
BB	BB	4	4	
B	B	5	5	
CCC	CCC	6	6	
CC	CC	6	6	
C	C	6	6	
D	D	6	6	
E	E	6	6	

The final CQS has been determined based on the CQS associated with the corresponding international credit rating scale categories.