

Credit rating agencies: integrity, transparency, responsibility, good governance and independence of activities

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The Commission presents a report on the feasibility of creating a network of smaller credit rating agencies (CRAs).

Purpose of the report: improving the conditions for **effective competition** on the concentrated market for credit rating agencies and thereby creating the pre-conditions for the emergence and growth of new market players is a key objective of the policy work of the European Commission in this area.

A number of distinctly smaller CRAs have emerged in Europe (their number has further increased after the introduction of European legislation on CRAs in 2009), operating with a clear focus on specific industry sectors (e.g. the insurance industry), financial market segments (e.g. municipal bonds) or specific geographical area, thus responding to specialised market needs.

The regulatory framework established by [Regulation \(EC\) No 1060/2009 of the European Parliament and of the Council](#) on credit rating agencies has played a role of quality assurance for CRAs' services on the market and has, in this way, helped them to evolve over time as serious market actors. Nevertheless, despite their good potential for growth, to **date these new market players often remain small** in terms of scope and geographical orientation.

Pursuant to Regulation (EU) No 462/2013 (CRA III Regulation) the Commission presents a report that identifies and analyses the feasibility of all possible policy options regarding the establishment of a network of smaller credit rating agencies. The analysis covers operational and financial aspects of such establishment.

Feasibility of a network of smaller credit rating agencies: on the basis of the impact assessment accompanying the CRA III Regulation and of a stakeholder consultation, the Commission assessed the added value of the creation of a network as well as the different possible options of the type of network which would best serve its purposes and be feasible to implement. Two types of networks have been envisaged, depending on the scope and nature of the proposed cooperation:

- **An integrated network**, which would have a wider scope and deeper level of cooperation, e.g : the development of a common data platform for underlying information used for developing ratings, design and use of common methodologies, sharing of expert knowledge and best practices on a wide range of topics such as internal controls, investor education, communication, methodologies and legal compliance.
- **A cooperation network** was assessed as an alternative to the integrated network approach, entailing a lighter form of cooperation. It could take the form of a forum for smaller CRAs, which would enable the establishment of a structure for regular exchange and cooperation among smaller CRAs.

Conclusions and next steps: the analysis of the feasibility of the options for the creation of a network of smaller CRAs has identified **multiple market obstacles** for the establishment of an integrated network as well as some obstacles limiting the potential scope of a cooperation network.

In addition, the **stakeholder consultation** has revealed that there is no support among industry representatives for establishing, under the current conditions, any form of network of smaller CRAs.

Smaller CRAs have rather **expressed the need for a structured dialogue or forum with the Commission** to discuss the state of the CRA market and regulation, in particular, issues affecting smaller CRAs.

Taking this into account, the report proposes a step by step assessment of the need to establish a network within the medium/long term.

- **Short term policy options:** the Commission proposes as an alternative to creating a network, the establishment of a regulatory dialogue as the most proportionate solution within the short term. This dialogue could consist of a periodic follow up of market developments in the rating industry and allow discussing on regulatory issues relating to the CRA regulation.
- **Medium/ long term policy options:** reflecting on the results of the work of the regulatory dialogue and the assessment of the effect of the measures adopted under the CRA III Regulation, the Commission will at a later stage assess the added value of a network of smaller CRAs and, if the latter are considered feasible, define measures to create the regulatory framework for networks to function effectively.