

Credit rating agencies

2008/0217(COD) - 19/10/2016 - Follow-up document

In accordance with Regulation (EC) No 1060/2009 on credit rating agencies (CRA Regulation), as amended, this Commission report evaluates:

- **alternatives to external credit ratings** currently used by market participants in the EU;
- the impact of the measures in the CRA regulation on **competition** in the credit rating agencies sector and the governance and internal procedures of credit rating agencies (preventing conflicts of interest and the use of alternative remuneration models);
- the possibility of setting up a **European credit rating agency** to assess sovereign debt and a European credit rating foundation, which would be responsible for all other credit ratings.

Dependence on external credit ratings: external credit ratings continue to play an important role at certain levels of the Union's regulatory framework for the financial sector, in particular as regards banks and insurance undertakings.

However, the Commission considers that there are **no other feasible alternatives** to replace external credit ratings.

In this context, supervisory authorities should **continue to discourage the mechanical use of credit ratings** by ensuring that market participants use other tools, such as (i) market-based credit risk measurement; (ii) internal credit risk assessment tools; (iii) third-party evaluations; (iv) accounting measures; (v) OECD country risk classification; and (vi) central bank scores, in addition to external credit ratings.

For its part, the Commission will continue to monitor market developments.

Competition: the rating industry is currently dominated by three US agencies (S & P, Moody's and Fitch) that provide a global geographic coverage of all asset classes.

Recent developments suggest that the credit rating market is likely to remain an extremely concentrated oligopoly in the coming years, making it necessary to ensure that historical CRAs are subject to a strict regulatory framework credible sanction as an effective deterrent. The report also highlights the importance of effective internal compliance and governance procedures to ensure the quality of external credit ratings.

In order to **facilitate the entry of newcomers** and to strengthen competition in the CRA market, the regulatory framework must be proportionate and must not impose excessive costs. The Commission will monitor the application of the CRA Regulation to smaller CRAs.

On a general level, the Commission will (i) seek to avoid and further reduce regulatory barriers to market entry; (ii) promote the **broadest possible inclusion of smaller CRAs**, in particular within the framework of the ECB's Eurosystem credit assessment framework (ECAAF).

For the time being, the Commission does not envisage extending the relevant provisions of the CRA Regulation to other financial products.

European Credit Rating Agency: the Commission **does not consider it necessary** at this time to set up a European credit rating agency specialising in sovereign debt or a European credit rating foundation for other credit ratings.

A European credit quality assessment would bring little added value compared to the information already provided by several sources under the budgetary and macroeconomic surveillance regime (e.g. the reports published in the context of the European Semester). Nor would it improve the level of information available to institutional investors.

The report concludes that, overall, the provisions of the CRA Regulation should have a **long-term positive impact** on the credit rating market. Since all the provisions of the CRA Regulation have not yet been implemented, the Commission wishes to **continue to monitor the credit rating market** before considering other measures.