

**Directorate General Internal Market and  
Services**

**Staff Working Paper**

**EU Response to the Financial Stability Board (FSB)**

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**EU Action Plan to reduce reliance on Credit Rating  
Agency (CRA) Ratings**

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## 1. FOREWORD

In November 2012, the Financial Stability Board (FSB) published a roadmap<sup>1</sup> to accelerate implementation of the FSB Principles<sup>2</sup> to reduce reliance on Credit Rating Agency (CRA) ratings. The FSB roadmap set out a timeline with concrete actions for jurisdictions with a view to implementing the FSB Principles. As part of the roadmap, a peer review was conducted by the FSB to assess the progress of jurisdictions with the implementation of the roadmap.

This staff working document is the EU response to FSB request for actions plans on reducing reliance on CRA ratings. It outlines the overall EU conceptual framework to reducing reliance on CRA ratings in Section 2.

This joint response provides an overview and summarizes all the existing and ongoing policy actions following adopted EU Regulations, Directives and implementing legislation and binding technical standards. It also includes guidelines adopted by the European Supervisory Authorities (European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA)). This response is complemented by any specific actions adopted at national level and which are not included in this response. For specific actions undertaken at national level, we refer to individual actions plans submitted by EU FSB Members. For central banking operations in the Euro area, we refer to the individual response by the European Central Bank (ECB).

In addition to the general conceptual framework to reducing reliance on CRA ratings, the annexes describe the detailed policy actions undertaken in policy areas including Banks (Annex I), Central Banking Operations (Annex II), Insurance and Reinsurance Undertaking (Annex III), Investment Funds Management (Annex IV), Collateral Policies for Central Counterparties (CCPs) (Annex V), Securities Issuance (Annex VI) and Securities Firms (Broker Dealers) (Annex VII).

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<sup>1</sup>FSB roadmap, available at: [https://www.financialstabilityboard.org/publications/r\\_121105b.pdf](https://www.financialstabilityboard.org/publications/r_121105b.pdf)

<sup>2</sup>FSB Principles on Reducing Reliance on CRA ratings, available at: [http://www.financialstabilityboard.org/publications/r\\_101027.pdf](http://www.financialstabilityboard.org/publications/r_101027.pdf)

## **2. CONCEPTUAL FRAMEWORK OF THE EU ACTION PLAN TO REDUCE RELIANCE ON CRA RATINGS**

### **2.1. Context: EU response to the FSB Principles**

The EU continues to support the implementation of the Financial Stability Board's (FSB) Principles<sup>3</sup> to reduce reliance on CRA ratings. Since the adoption of the principles, important regulatory changes have been undertaken in the EU to ensure compliance with the FSB Principles.

This action plan outlines the joint EU response to the Financial Stability Board request for action plans for steps to reduce reliance on CRA ratings, as committed in the January 2012 FSB roadmap for reducing reliance. The overall framework in the EU to reduce reliance on CRA ratings covers a wide range of regulatory measures, covering EU legislation and actions by EU supervisory authorities. In addition to this document, specific actions by national competent authorities by EU FSB Members are complemented in national contributions to the FSB request.

### **2.1. EU Action Plan**

The EU conceptual framework to reduce reliance on external credit ratings is visualised in figure 1 and can be described as a multi-layer approach, covering EU regulation on credit rating agencies, sectoral legislation in financial services, actions by European Supervisory Authorities, including the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) and by national competent sectoral authorities. To ensure implementation of the FSB principles and adoption by market participants a consistent implementation approach is necessary across all layers.

#### *2.1.1. CRA Regulation*

The first layer introduces the basic principles to reduce reliance on CRA ratings which are outlined in the CRA III Regulation<sup>4</sup>. This covers provisions which aim to reduce sole and mechanistic on credit ratings and require financial institutions to strengthen their own credit risk assessment.

More specifically, Article 5a of the CRA III regulation requires financial institutions “*to make their own credit risk assessment and not solely and mechanistically rely on credit ratings for assessing the creditworthiness of an entity or financial instrument.*”

#### *2.1.2. Sectoral legislation*

A second layer consists of regulatory changes sectoral legislation in financial services. These cover the asset management sector (amendments to the UCITS Directive and Alternative Investment Funds Managers Directive (AIFMD)) and institutions for

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<sup>3</sup>FSB Principles on Reducing Reliance on CRA ratings, available at:  
[http://www.financialstabilityboard.org/publications/r\\_101027.pdf](http://www.financialstabilityboard.org/publications/r_101027.pdf)

<sup>4</sup> Regulation 1060/2009 on credit rating agencies, as amended by Regulation 462/2013

occupational and retirement provision (amendments of IORPD))<sup>5</sup> with regard to reducing sole and mechanistic reliance on external credit ratings. In addition, in the banking sector, the Capital Requirements Directive (CRD IV)/ Capital Requirements Regulation (CRR)<sup>6</sup> contain measures to reduce reliance for the purpose of determining regulatory capital for banks. In the insurance sector, the implementing measures for Solvency II in preparation could reflect the same principle on reducing reliance on credit ratings.

### 2.1.3. European Supervisory Authorities (ESA's)

The third layer refers to the European Supervisory Authorities the authorities, which are required by the CRA III Regulation<sup>7</sup> to review their guidelines, recommendations and draft technical standards under their responsibility respectively for banking, insurance, and securities sectors with a view to implementing the FSB Principles. The European Supervisory Authorities could, where appropriate, act towards facilitating convergence of supervisory practices in implementing the principles to reduce reliance on ratings. Cross-sectoral consistency could also be ensured by coordination between ESMA, EBA and EIOPA in the Joint Committee of the European Supervisory Authorities.

As part of the implementation, the Joint Committee of the European Supervisory Authorities has adopted a final report on Mechanistic references to credit ratings in the ESAs' guidelines and recommendations<sup>8</sup>. To have a clear and consistent understanding of "sole or mechanistic reliance", the report adopted following definition: "*It is considered that there is sole or mechanistic reliance on credit ratings (or credit rating outlooks) when an action or omission is the consequence of any type of rule based on credit ratings (or credit rating outlooks) without any discretion*". This definition is based on the understanding reached by the European Parliament, the Council, and the Commission during the negotiations on the CRA III Regulation. This understanding has not previously been translated into a formal definition.

Additionally, the European Systemic Risk Board (ESRB) is required<sup>9</sup> to avoid the use of credit ratings in its warnings and recommendations where such references have the potential to trigger sole or mechanistic reliance on credit ratings.

### 2.1.4. National sectoral competent authorities

The last layer refers to the implementation of national sectoral legislation and supervision by national sectoral competent authorities. In this context, Article 5a (2) of the CRA III

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<sup>5</sup> Directive 2013/14/EU of the European Parliament and of the Council of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational requirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings, OJ L 145, 31.5.2013, p. 1

<sup>6</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176, 27.6.2013, p. 338 and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176, 27.6.2013, p. 1

<sup>7</sup> Article 5b (1) of Regulation 1060/2009 as amended by Regulation 462/2013 requires EBA, EIOPA and ESMA by 31 December 2013 to review and remove where appropriate all references to credit ratings in existing guidelines and recommendations.

<sup>8</sup> EBA, EIOPA and ESMA Final Report On Mechanistic references to credit ratings in the ESAs' guidelines and recommendations (JC 2014 004), London, Frankfurt, Paris 06 February 2014.

<sup>9</sup> Article 5b (2) of Regulation 1060/2009 as amended by Regulation 462/2013

Regulation explicitly requires national sectoral competent authorities to monitor the adequacy of the credit risk assessment processes of financial institution, taking into account the nature, scale and complexity of their activities. In addition, competent authorities are required to assess the use of contractual references to credit ratings and, where appropriate, encourage them to mitigate the impact of such references, with a view to reducing sole and mechanistic reliance on credit ratings, in line with specific sectoral legislation.

#### *2.1.5. Further steps to reduce over-reliance on credit ratings in Union Law*

Article 5c of the CRA III Regulation requires the Commission to continue reviewing the use of references to external credit ratings in Union law that trigger or have the potential to trigger sole or mechanistic reliance. The Commission will by the end of 2015, based on technical advice from ESMA, (1) report on the steps taken as regards the deletion of references to credit ratings which trigger or have the potential to trigger sole or mechanistic reliance (2) report on alternative measures to credit risk assessment. Provided that appropriate alternatives to credit risk assessment are identified and implemented, the Commission will consider, if appropriate, removing all remaining references to credit ratings in EU legislation by 2020.

More details on actions undertaken in specific sectors can be found in Annex I-VII.

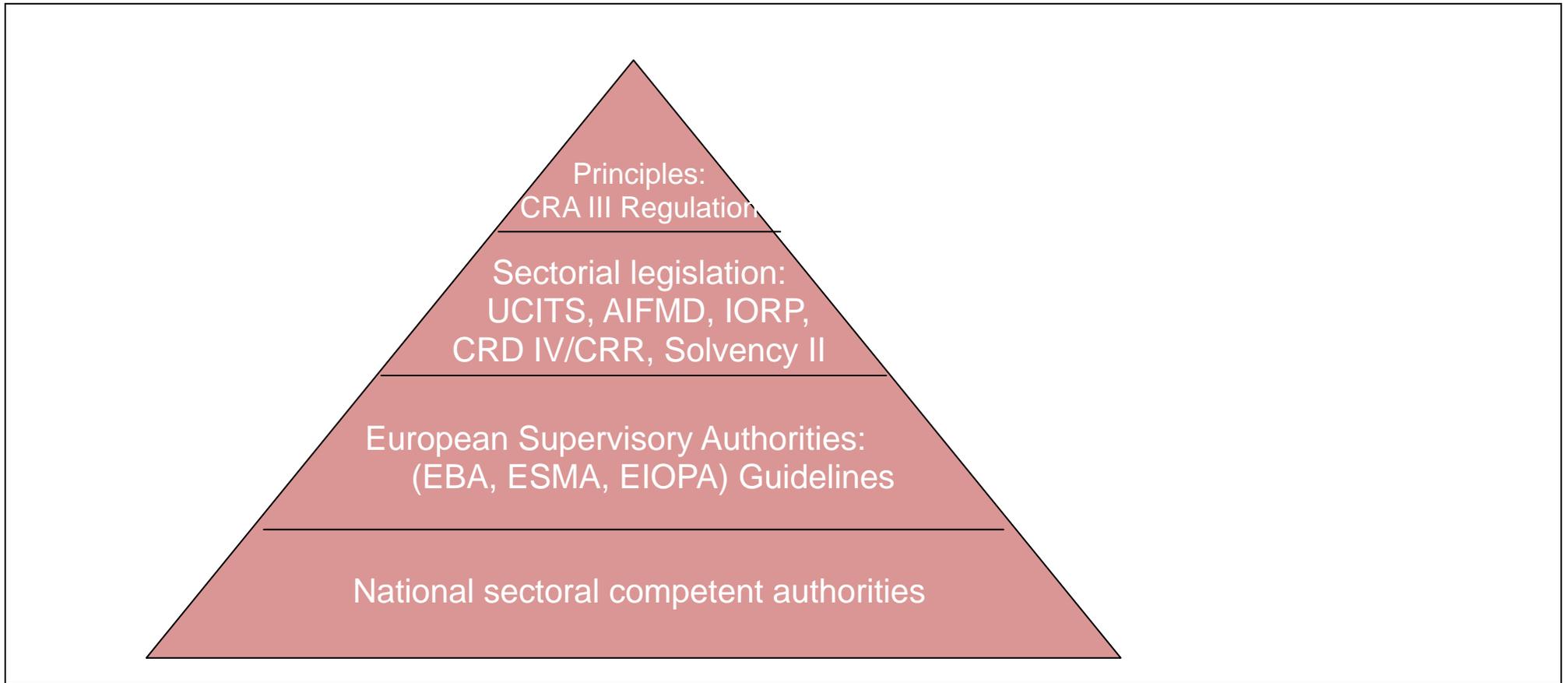


Figure 1: EU conceptual framework to reduce reliance on external credit ratings

### 3. ANNEX I: BANKS

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>3.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b>			
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending decisions.</i></p>			

<b>Action to be taken</b>	<b>Responsible national authority</b>	<b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b>	<b>Milestones and expected completion date</b>  (e.g. “end-2014” or “one year after new international standards agreed”)
<p>The Capital Requirements Directive (CRD)/Capital Requirements Regulation (CRR) require credit institutions to have their own sound credit granting criteria and credit decision processes in place. This applies irrespective of whether institutions grant loans to customers or whether they incur securitisation exposures. For the specific purposes of calculating regulatory bank capital requirements, rating agency assessments are, in certain instances, applied as a basis for differentiating capital requirements according to risks, and not for determining the minimum required quantum of capital itself. The CRD framework as a whole provides banks with an incentive to use internal rather than external credit ratings even for purposes of calculating regulatory capital requirements. In the specific case of securitisation exposures, due to a lack of sufficiently objective internal methodologies within banks, most of them would still be expected to calculate their regulatory capital requirements by reference to external ratings. In addition, further evolutions in this area will build further on the review of reliance on credit ratings in the Basel Committee on Banking Supervision (BCBS) requirements.</p> <p>The CRD/CRR entered into force on 1st of January 2014, reflecting the approach taken to reduce reliance on external credit ratings.</p>			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
a) Remove references to CRA ratings in laws and regulations relating to banks.	EBA  Commission based on technical Advice from ESMA	Bi-annual report by EBA on the references to ratings in national legislation and implementation of the principles to reduce reliance on credit ratings  CRA III requires the Commission, based on ESMA technical advice, to submit a report to the European Parliament and to the Council on (a) the steps taken as regards the deletion of references to credit ratings which trigger or have the potential to trigger sole or mechanistic reliance and (b) alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments, with a view to deleting all references to credit ratings in Union law for regulatory purposes by 1 January 2020, subject to appropriate alternatives being identified and implemented. This obligation covers among others, the use of external credit ratings in the banking sector.	Bi-annually as of 2014  Report end 2015/ completion 2020

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p>b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to banks.</p>	<p>Competent Authorities responsible for Banking Supervision</p> <p>Commission based on technical Advice from ESMA</p>	<p>Article 77 of the Capital Requirements Regulation (CRR) requires that “institutions that are significant in terms of their size, international organisation and the nature, scale and complexity of their activities” are encouraged by competent authorities to “increase use of the internal ratings based approach (IRB)” where their exposures are material in absolute terms and where they have a large number of material counterparties”</p> <p>CRA III requires the Commission to report on alternative tools to credit risk assessment.</p>	<p>As of 2014</p> <p>Report end 2015</p>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>3.2. 2. Reducing market reliance on CRA ratings (Principle II)</b>		<b>3.3.</b>	<b>3.4.</b>
a) Enhance supervisory processes and procedures to assess the adequacy of banks’ own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	Commission/ EBA	<p>Supervisory Benchmarking of Internal Approaches for calculating own funds requirements:</p> <p>The Commission shall by 04/2015 and after consulting EBA submit a report as to the functioning of the bench marking of internal models including the scope of the model.</p> <p>Bi-annual report by EBA on the references to ratings in national legislation and implementation of the principles to reduce reliance on credit ratings.</p>	<p>Commission Report by 04/2015</p> <p>EBA report: Bi-Annual, as from 2014</p>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.			
<i>3.4.1.3.2 Prudential supervision of banks (Principle III.2)</i>		<i>3.4.2.</i>	<i>3.4.3.</i>
a) Enhance supervisory oversight of banks to ensure they develop adequate internal credit assessment processes that avoid mechanistic reliance on CRA ratings (differentiating where appropriate between banks subject to the internal ratings-based (IRB), Standardised Approach of other capital regime).	National Competent Authorities	Supervisory Benchmarking of Internal Approaches for calculating own funds requirements	
b) Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings.			

**4. ANNEX II: CENTRAL BANK OPERATIONS**

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>4.1. 3. Application of the basic principles to particular financial market activities (Principle III)</b>			
<i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing changes, including which areas are considered priorities, and the steps authorities intend to take to reduce reliance on CRA ratings in central bank policies and operations.</i>			
<p>Central Banking operations are in the Eurozone under the responsibility of the European Central Bank. To this end, we refer to the action plan of the ECB.</p> <p>The Bank of England has removed all mechanistic references to credit ratings in the documents relating to the Bank’s operations (known as the ‘Red Book’) and as such, no further concrete action is planned.</p>			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<i>4.1.1.3.1 Central bank operations (Principle III.1)</i>			
a) Reduce reliance on CRA ratings in central bank policies (such as investments, asset management frameworks, and conventional and unconventional operations), including the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts.			
b) Adjust policies for imposing risk control measures (including haircuts) on financial instruments to align with the FSB Principles on CRA ratings.			
c) Develop the central bank’s internal credit risk assessment capabilities and use of alternative measures of creditworthiness.			

5. ANNEX III: INSURANCE/REINSURANCE COMPANIES<sup>10</sup>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p><b>5.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b></p>			
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions.</i></p>			

<sup>10</sup> Answers in this section should relate to the prudential regulation of insurance companies and reinsurance companies. Laws and regulations relating to insurance companies in their capacity as institutional investors should be included in the section entitled “Investment Funds Management.”

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p>The insurance and reinsurances Directives (collectively known as Solvency I) do not contain references to ratings.</p> <p>The Solvency II Directive introduces risk-based solvency requirements for insurance and reinsurance undertakings. It does not contain any explicit references to credit ratings.</p> <p>The Solvency II Directive is amended by the Omnibus II Directive to reflect the powers of EIOPA. The new rules foresee the limited use of external credit ratings to rank credit risks in the implementing measures on the standard formula Solvency Capital Requirement (SCR) calculation. This is similar to the approach adopted in the banking sector.</p>			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
a) Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.	Commission based on technical advice from ESMA. EIOPA for implementation	CRA III requires the Commission, based on technical advice from ESMA, to submit a report to the European Parliament and to the Council on (a) the steps taken as regards the deletion of references to credit ratings which trigger or have the potential to trigger sole or mechanistic reliance and (b) alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments, with a view to deleting all references to credit ratings in Union law for regulatory purposes by 1 January 2020, subject to appropriate alternatives being identified and implemented. This obligation covers among others, the use of external credit ratings in the Insurance sector.	Report end 2015/ completion 2020



Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>5.2. 2. Reducing market reliance on CRA ratings (Principle II)</b>		<b>5.3.</b>	<b>5.4.</b>
a) Enhance supervisory processes and procedures to assess the adequacy of insurers’/reinsurers’ own credit assessment processes and incentivise market participants to develop internal risk management capabilities.	EIOPA	As explained above, EIOPA is developing guidelines on internal ratings on a comply or explain basis, which will include rules for adequacy of own credit assessment processes.	
b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.		See answer a)	

**6. ANNEX IV: INVESTMENT FUNDS MANAGEMENT**

**(INCLUDING COLLECTIVE INVESTMENT SCHEMES, ALTERNATIVE INVESTMENT SCHEMES, OCCUPATIONAL RETIREMENT SCHEMES)**

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p><b>6.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b></p>			
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.</i></p>			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
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Currently, the relevant legislation in the investment fund management sector does not contain references to external credit ratings.

The main action undertaken to implement FSB principles has been the introduction of the principles to reduce reliance on external credit ratings in sectoral legislation in the asset management sector through amendments of sectoral legislation as part of the CRA III package which covered amendments of Directive 2003/41/EC(IORPD) regarding Institutions for Occupational Retirement Provision, Directive 2009/65/EC (UCITS) regarding undertakings for collective investments, Directive 2011/61/EU (AIFMD) on alternative investment funds managers.

The main focus of the adopted rules is to strengthen own credit risks assessments by relevant actors and reducing sole and mechanistic reliance on credit ratings. A detailed description of the introduced provisions can be found in annex VIII.

In addition, the EU Commission has made a recent proposal on Money Market Funds (MMFs) (COM(2013)615 final) which covers the implementation of the principles to reducing sole and mechanistic reliance on CRA ratings in this sector. This proposal has yet to be discussed by the Council and the European Parliament. In particular Article 23 of the proposed regulation foresees that an MMF or a manager thereof shall not solicit or finance an external credit rating agency for the rating of an MMF. Articles 16 to 19 contain detailed rules for the establishment of an internal procedure to assess the credit quality of MMF investment instruments.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
a) Remove references to CRA ratings in laws and regulations for investment funds management.	Commission based on technical advice from ESMA	CRA III requires the Commission, based on technical advice from ESMA, to submit a report to the European Parliament and to the Council on (a) the steps taken as regards the deletion of references to credit ratings which trigger or have the potential to trigger sole or mechanistic reliance and (b) alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments, with a view to deleting all references to credit ratings in Union law for regulatory purposes by 1 January 2020, subject to appropriate alternatives being identified and implemented. This obligation covers among others, the use of external credit ratings in the Investment Fund Management Sector.	Report end 2015/ completion 2020
b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for investment funds management.	National Sectoral Competent Authorities	The CRA III package amends Directive 2003/41/EC on Institutions for Occupational Retirement Provision, Directive 2009/65/EC on UCITS and Directive 2011/61/EU on Alternative Investment Fund Managers, to strengthen the requirement for own credit risks assessment and not solely and mechanistically rely on external credit ratings.	18 months after entry into force on May 21 June 2013

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>6.2. 2. Reducing market reliance on CRA ratings (Principle II)</b>		<b>6.3.</b>	<b>6.4.</b>
a) Enhance supervisory processes and procedures to assess the adequacy of market participants’ own credit assessment processes.	National Sectoral Competent Authorities	<p>The CRA III package contains an amendment of Directive 2003/41/EC on Institutions for Occupational Retirement Provisions, Directive 2009/65/EC on UCITS and Directive 2011/61/EU requiring competent authorities to monitor the adequacy of own credit risk assessment processes of the supervised entities.</p> <p>This is in addition to the general obligation in CRA III Regulation for sectoral competent authorities to monitor the adequacy of their credit risk assessment processes with a view to reducing sole and mechanistic reliance on credit ratings (taking into account the nature, scale and complexity of their activities), under Article 5a of the amended CRA Regulation.</p>	<p>18 months after entry into force on 21 June 2013</p> <p>As of 21 June 2013</p>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>6.5. 3. Application of the basic principles to particular financial market activities (Principle III.3)</b>			
a) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors.			
a. Insurance companies (in their capacity as institutional investors)		See answer point 5.3	
b. Investment managers (i.e. managers of collective investment schemes).		See answer point 5.3	
c. Alternative investment managers (e.g. hedge funds, endowments).		See answer point 5.3	
d. Managers of occupational retirement schemes.		See answer point 5.3	
b) Require changes to internal limits and investment policies.			
a. Insurance companies (in their capacity as institutional investors)			
b. Investment managers (i.e. managers of collective investment schemes).			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
c. Alternative investment managers (e.g. hedge funds, endowments).			
d. Managers of occupational retirement schemes.			
c) Incentivise compliance with the CRA Principles.			
a. Insurance companies (in their capacity as institutional investors)		See answer point 5.1 a) & b)	
b. Investment managers (i.e. managers of collective investment schemes).		See answer point 5.1 a) & b)	
c. Alternative investment managers (e.g. hedge funds, endowments).		See answer point 5.1 a) & b)	
d. Managers of occupational retirement schemes.		See answer point 5.1 a) & b)	
d) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers.			

<b>Action to be taken</b>	<b>Responsible national authority</b>	<b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b>	<b>Milestones and expected completion date</b>  (e.g. “end-2014” or “one year after new international standards agreed”)
a. Insurance companies (in their capacity as institutional investors)		See answer point 5.3	
b. Investment managers (i.e. managers of collective investment schemes).		See answer point 5.3	
c. Alternative investment managers (e.g. hedge funds, endowments).		See answer point 5.3	
d. Managers of occupational retirement schemes.		See answer point 5.3	

**7. ANNEX V: COLLATERAL POLICIES FOR CENTRAL COUNTERPARTIES (CCPs)**

<b>Action to be taken</b>	<b>Responsible national authority</b>	<b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b>	<b>Milestones and expected completion date</b>  (e.g. “end-2014” or “one year after new international standards agreed”)
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Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which CCPs should perform their own due diligence.</i></p>			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p>Regulation No 648/2012 (EMIR)<sup>11</sup> does <b>not</b> contain any references to credit ratings. .</p> <p>Creditworthiness assessment for the purpose of CCPs’ investment and collateral policy is based on a qualitative approach: it is specified that <i>‘in performing such assessment the CCP shall employ a defined and objective methodology that shall not fully rely on external opinions’</i>;</p> <p>However, as part of the implementation of EMIR, a Regulatory Technical Standard (RTS) setting margin requirements for non-cleared OTCD is yet to be completed. The relevant EBA working group (TFMI) has proposed “credit quality steps” to determine collateral eligibility. It should be ensured that the final proposal is consistent with the FSB principles to reduce reliance on external ratings.</p>			

<sup>11</sup> Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>7.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b>			
a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	Commission based on technical advice from ESMA	CRA III requires the Commission, based on technical advice from ESMA, to submit a report to the European Parliament and to the Council on (a) the steps taken as regards the deletion of references to credit ratings which trigger or have the potential to trigger sole or mechanistic reliance and (b) alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments, with a view to deleting all references to credit ratings in Union law for regulatory purposes by 1 January 2020, subject to appropriate alternatives being identified and implemented. This obligation	Report end 2015/ completion 2020

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
		covers, among others, the use of external credit ratings in laws and regulations relating to collateral policies for CCPs.	
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	Commission based on technical advice from ESMA	CRA III requires the Commission to report on alternative tools to credit risk assessment.	End 2015
<b>7.2. 2. Reducing market reliance on CRA ratings (Principle II)</b>		<b>7.3.</b>	<b>7.4.</b>
a) Enhance supervisory processes and procedures to assess the adequacy of CCPs’ own credit assessment processes.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>7.5. 3. Application of the basic principles to particular financial market activities (Principle III)</b>			
<i>7.5.1.3.1 Central counterparties and private sector margin agreements (Principle III.4a)</i>			
a) Conduct stress tests or estimate the procyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities.			
b) Assess the reliance on credit ratings in the investment policy of the CCP.			
c) Review private sector margin agreements to ensure compliance with the Principle.			
d) Require changes to private sector margin			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
agreements.			
e) Incentivise compliance with the CRA Principles.			

**8. ANNEX VI: SECURITIES ISSUANCE (DEBT AND EQUITY, WHETHER PUBLIC ISSUANCE OR PRIVATE PLACEMENT), INCLUDING ASSET-BACKED SECURITIES AND CORPORATE DEBT**

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.</i></p>			
<p>Prospectus Directive: Directive 2010/73/EU there are no specific references to credit ratings.</p> <p>Implementing Regulation 809/2004 regarding the content of the Prospectus introduces a requirement for an issuer to disclosure in the prospectus of a credit rating (of the issuer and/or of debt securities) when available (to the extent that the issuer has solicited it or has collaborated with agencies in the process of rating). Furthermore, the issuer would need to complement the prospectus if the credit rating is changed during the offer period, following an assessment made on a case by case basis by the national competent authority responsible for the approval of the prospectus.</p> <p>However, the approach outlined in Regulation 804/2004 is not considered as sole and mechanistic reliance on credit ratings</p> <p>The main step taken is the general revision under CRA III Regulation, requiring the Commission to review whether references to credit ratings in Union law trigger or have the potential to trigger sole or mechanistic reliance on credit ratings with a view to deleting all references to credit ratings in Union law for regulatory purposes by 1 January 2020, provided that appropriate alternatives to credit risk assessment have been identified and implemented.</p>			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>8.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b>			
a) Remove references to CRA ratings in laws and regulations related to securities issuance.	Commission based on technical advice from ESMA	CRA III requires the Commission, based on technical advice from ESMA, to submit a report to the European Parliament and to the Council on (a) the steps taken as regards the deletion of references to credit ratings which trigger or have the potential to trigger sole or mechanistic reliance and (b) alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments, with a view to deleting all references to credit ratings in Union law for regulatory purposes by 1 January 2020, subject to appropriate alternatives being identified and implemented. This obligation covers among others, the use of external credit ratings in laws and regulations relating to securities issuance.	Report end 2015/ completion 2020
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing	Commission based on technical advice	The CRA III requires the Commission to report on alternative tools to credit risk	End 2015

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
references to CRA ratings in laws and regulations relating to securities issuance.	from ESMA	assessment.	
<b>8.2. 2. Reducing market reliance on CRA ratings (Principle II)</b>		<b>8.3.</b>	<b>8.4.</b>
a) Enhance supervisory processes and procedures to assess the adequacy of market participants own credit assessment processes.			
<b>8.5. 3. Application of the basic principles to particular financial market activities (Principle III)</b>			
<i>8.5.1.3.1 Central counterparties and private sector margin agreements (Principle III.5a)</i>			
a) Review the role of credit rating in disclosures by issuers of securities.			
b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take).			

## 9. ANNEX VII: SECURITIES FIRMS (BROKER-DEALERS)

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes.</i></p>			
<p>Markets in Financial Instruments Directive (MIFID, Directive 2004/39/EC) does not contain any references to credit ratings, while the MIFID implementing directive contains reference to credit ratings in article 18 (1).</p> <p>However, the MIFID Directive (Directive 2004/39/EC) is currently under revision and does not include any references to credit ratings.</p> <p>After the adoption of the MiFID review (commonly called MiFID II) new implementing legislation will follow. This new implementing legislation should also allow for compliance with principles to reduce reliance on external credit ratings. However, there is currently not yet a final timeline for the ongoing MiFID II Review.</p>			
<p><b>9.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b></p>			
<p>a) Remove references to CRA ratings in laws and regulations relating to securities firms.</p>	<p>Commission based on technical advice from ESMA</p>	<p>CRA III requires the Commission, based on technical advice from ESMA, to submit a report to the European Parliament and to the Council on (a) the steps taken as regards the</p>	<p>Report end 2015/ completion 2020</p>

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
		deletion of references to credit ratings which trigger or have the potential to trigger sole or mechanistic reliance and (b) alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments, with a view to deleting all references to credit ratings in Union law for regulatory purposes by 1 January 2020, subject to appropriate alternatives being identified and implemented. This obligation covers the use of external rating ratings in laws and regulations relating to securities firms.	
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities firms.	Commission based on technical advice from ESMA	CRA III requires the Commission to report on alternative tools to credit risk assessment.	End 2015

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>9.2. 2. Reducing market reliance on CRA ratings (Principle II)</b>		<b>9.3.</b>	<b>9.4.</b>
a) Enhance supervisory processes and procedures to assess the adequacy of securities firms’ own credit assessment processes.			

**Annex VIII Investment Funds Management Sector:  
new provisions introduce to reduce reliance on external credit ratings.**

Directive 2003/41/EC was amended in article 18, adding paragraph 1a:

Taking into account the nature, scale and complexity of the activities of the institutions supervised, Member States shall ensure that the competent authorities monitor the adequacy of the institutions' credit assessment processes, assess the use of references to credit ratings issued by credit rating agencies as defined in Article 3(1)(b) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, in their investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings.

Directive 2009/65/EC was amended in article 51: following paragraphs are added:

“A management or investment company shall employ a risk-management process which enables it to monitor and measure at any time the risk of the positions and their contribution to the overall risk profile of the portfolio of a UCITS. In particular, it shall not solely or mechanistically rely on credit ratings issued by credit rating agencies as defined in Article 3(1)(b) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, for assessing the creditworthiness of the UCITS' assets.”

“Taking into account the nature, scale and complexity of the UCITS' activities, the competent authorities shall monitor the adequacy of the credit assessment processes of the management or investment companies, assess the use of references to credit ratings, in the UCITS' investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings.”

In addition a paragraph is added, requiring that criteria for assessing the adequacy of the risk-management process employed by the management or investment company ensure that these entities are prevented from relying solely or mechanistically on credit ratings for assessing the creditworthiness of the UCITS' assets.

Directive 2011/61/EU was amended in article 15 adding following paragraphs:

Alternative Investment Fund Managers (AIFMs) shall implement adequate risk-management systems in order to identify, measure, manage and monitor appropriately all risks relevant to each Alternative Investment Fund (AIF) investment strategy and to which each AIF is or may be exposed. In particular, AIFMs shall not solely or mechanistically rely on credit ratings issued by credit rating agencies as defined in Article 3(1)(b) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, for assessing the creditworthiness of the AIFs' assets.