



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI

President

Mr Brian Hayes

Member of the European Parliament

European Parliament

60, rue Wiertz

B-1047 Brussels

Frankfurt am Main, 10 April 2018

L/MD/18/128

Re: Your letter (QZ-015)

Honourable Member of the European Parliament, dear Mr Hayes,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 6 March 2018.

As I had the opportunity to explain to your honourable colleague Mr Burkhard Balz in a letter dated 17 June 2015¹, the Eurosystem has a statutory obligation to ensure that the credit operations it conducts are secured by adequate collateral.² To this end, the Eurosystem has put in place risk control arrangements that seek to mitigate the financial risks associated with such operations. The Eurosystem credit assessment framework (ECAAF), which is a key component of those arrangements, was established under the operational independence that is granted to the Eurosystem for the conduct of monetary policy. The ECAAF defines the procedures, rules and techniques³ ensure that only assets with high credit standards are accepted as eligible for the Eurosystem credit operations.

It should be noted, in this regard, that the Eurosystem does not rely exclusively on credit rating agencies when assessing the collateral that it accepts in its credit operations. In fact, it takes account of information from credit assessment systems belonging to the following four sources: external credit assessment

¹ Available at https://www.ecb.europa.eu/pub/pdf/other/150618letter_balz.en.pdf

² See Article 18.1 of the Statute of the European System of Central Banks and of the European Central Bank.

³ The legal provisions underpinning the ECAAF are set out in Guideline (EU) 2015/510 of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (recast) (ECB/2014/60), which is available at https://www.ecb.europa.eu/ecb/legal/pdf/en_ecb_2014_60_f_sign.pdf. Additional information on the ECAAF is available on the ECB's website at <https://www.ecb.europa.eu/paym/coll/risk/ecaf/html/index.en.html>

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institutions (ECAIs), national central banks' in-house credit assessment systems, banks' internal ratings-based systems and rating tools (RTs). Therefore, in addition to the credit rating agencies that have been accepted as ECAIs, the Eurosystem also accepts other European credit rating agencies as RTs.⁴ Moreover, other credit rating agencies also have the potential to be accepted as ECAIs under the ECAF, provided that they comply with the relevant requirements. To this end, in December 2015 the Governing Council of the ECB decided to publish detailed information on the criteria for accepting credit rating agencies as ECAIs under the ECAF⁵ with the aim of increasing transparency and facilitating applications. That decision by the Governing Council⁶ supports the efforts undertaken by the European Securities and Markets Authority (ESMA) and the European Commission with a view to fostering competition in the credit rating industry.

The Eurosystem's acceptance criteria have been established in such a way that the Eurosystem is protected against financial risks and a level playing field is ensured among the various credit rating providers. For example, minimum coverage requirements stipulate the range of rated assets, rated issuers and the volume of assets that a credit rating agency needs to cover as a minimum in order to be regarded as providing relevant rating coverage, thereby ensuring the efficient implementation of the ECAF. All ECAIs have to comply with these requirements under the ECAF. ECAIs are also required to register with ESMA and fulfil certain operational criteria.

The various requirements are designed to ensure that accepted ECAIs have broad credit risk expertise, proven market acceptance and an established track record over time. These procedures aim to enable the Eurosystem to monitor and assess the performance of each ECAI, thereby ensuring the quality of the Eurosystem's eligibility assessment. At the same time, the coverage thresholds are not so restrictive that they preclude the acceptance of new credit rating agencies.⁷ Consequently, we are of the opinion that the current acceptance criteria strike a good balance between the Eurosystem's requirements as a user of credit ratings for public policy purposes and more general competition-related goals. Lowering those minimum requirements would run counter to the purpose of the ECAF, which seeks to minimise risk for the Eurosystem – and, ultimately, taxpayers.

Finally, I would like to briefly describe the acceptance process for ECAIs.⁸ The Eurosystem reserves the right to decide whether to initiate an ECAF acceptance procedure upon a request from a credit rating agency. Compliance with the aforementioned minimum coverage criteria is a necessary condition, but is not sufficient on its own. The Eurosystem also reviews credit rating agencies' compliance with a number of regulatory,

⁴ For example, the European credit rating agency Cerved Group is currently accepted as an RT.

⁵ Details of the relevant requirements can be found in Guideline (EU) 2015/510 of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (recast) (ECB/2014/60).

⁶ For details of that decision, see <https://www.ecb.europa.eu/press/govcdec/otherdec/2016/html/gc160122.en.html>

⁷ For example, a credit rating agency that assesses around 100 issuers may comply with those requirements, depending on its coverage in terms of geographical area and asset classes.

⁸ See Article 120(2) of Guideline (EU) 2015/510 of the ECB of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (recast) (ECB/2014/60). For more information, see the box entitled "Eurosystem publishes more detailed criteria for accepting rating agencies", *Economic Bulletin*, Issue 1, ECB, 2016 (available at <https://www.ecb.europa.eu/pub/pdf/ecbu/eb201601.en.pdf>).

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operational and information requirements. The final decision on whether to accept a credit rating agency is taken on the basis of a comprehensive due diligence assessment. This is closely related to the Eurosystem's commitment to implementing the Financial Stability Board's principles for reducing mechanistic reliance on external ratings⁹.

Yours sincerely,

[signed]

Mario Draghi

⁹ See the Financial Stability Board's "Principles for Reducing Reliance on CRA Ratings", October 2010 (available at http://www.fsb.org/wp-content/uploads/r_101027.pdf).

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