

Insurance Europe' comments on ESMA discussion paper regarding the implementation of the CRA3 Regulation

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Summary

European insurance companies, be it for their role in the financial markets as the biggest institutional investors, or because of the references to credit ratings in prudential regulation (such as Solvency II), have a keen interest in the policy debate on credit rating agencies (CRAs).

In this document Insurance Europe expresses its views on two of the three areas brought into discussion in this consultation, namely: Regulatory Technical Standards (RTS) on information on structured finance instruments (SFIs) and RTS on the European Rating Platform (ERP).

Insurance Europe comments regarding RTS on information on structured finance instruments (SFIs)

- The scope of extended disclosure requirements under Article 8(b) should be limited to SFIs that are covered by the Prospectus Directive and Transparency Directive.
- From an investor as well as from an issuer perspective, the envisaged RTS on information on SFIs should ensure that information requirements do not result in issuers refraining from structuring such instruments.
- At present, rating agencies have to accept confidentiality agreements when analysing a structured finance instrument. This is necessary because the information used for the analysis is often confidential and highly sensitive. If such information were released into the public domain, issuers could decide not to execute a transaction.
- Given the volume and heterogeneity of information needed for analysing SFIs, the introduction of a standardised disclosure template could mean an additional, cost intensive burden for the issuer.

Insurance Europe comments regarding RTS on the ERP aimed at helping investors in their decision-making

- The quality and frequency of publicly available data is often not sufficient for analysing the credit-worthiness of issuers and instruments. As a consequence, external ratings remain a necessary information source for investors in their decision-making process.
- Given that external ratings remain essential within the investment process, it is important for users of ratings to get better access to ratings and the research by agencies in order to compare CRA analyses.
- Given the great importance of external credit ratings, CRA's practice of (double) charging users of their ratings should be thoroughly analysed. The free transmission of rating information to regulators or investors being hindered due to licensing agreements should be avoided.
- Currently, information on rating actions and rating analysis is often not easily accessible and comparable for investors. Investors interested in CRA research often have to register on the respective CRA website or even pay for research. This process is time consuming as well as cost intensive and prevents investors from accessing all relevant information on an issuer or issue. Therefore, we would welcome the introduction of a European Rating Platform that provides easy access to up-date information on ratings and outlooks issued by registered and certified CRAs.
- Moreover, in order to improve investors' own abilities to access the credit worthiness of issuers and issues as well as question the CRA analysis, it would be helpful to also disclose research such as rating reports on the European Rating Platform. In order to allow for comparisons of ratings and rating research we would welcome ESMA specifying the content and the presentation of the information, including the structure, format, method and timing of reporting.
- When integrating the data provided by the CRAs to ESMA, it must be ensured that the confidentiality requirements of rated issuers are respected.

Please find below our answers to specific questions raised in the consultation:

Q2: In light of paragraph 13, do you consider that the scope of Article 8(b) should be limited to those SFIs which are covered by the Prospectus Directive and Transparency Directive, or that its scope should not be limited to those Directives and should cover all SFIs traded in the EU? Please give arguments for your response.

Yes, the scope should be limited to SFIs that are covered by the Prospectus Directive and Transparency Directive. Article 8 b, section 1 states that information on the "credit quality and performance of the underlying assets of the structured finance instrument" should be published. This means that disclosure requirements are limited to asset securitisations with a measurable credit quality. As a consequence, extended disclosure requirements for other instruments, such as insurance securitisations, for example, are not covered by the directive and should hence be avoided.

Q9: Do you have any other comments on the content of information to be disclosed?

Disclosure of information must respect the confidentiality requirements of rated issuers. Otherwise, issuers could decide not to execute the respective transactions.

Q21: Particularly for users of ratings: Taking into consideration the rating classification described above, could you suggest (including a detailed reason):

- a. Other rating types not captured in the above categorisation
- b. Which rating categories or rating components should ERP cover

In addition to the information collected in CEREP and SOCRAT all ratings required under CRA3 should be disclosed (eg issue ratings on corporates, sovereigns, etc).

c. Other actions or events affecting the ratings that should be published on the ERP.

Information on interaction and disclosure of non-public information between issuer and CRA should be published as well. This information would be more helpful to users of ratings than the information on the solicited status, since ratings based on non-public information are often regarded as more meaningful than ratings that are based purely on information in the public domain, without interaction with the issuer (eg actuarial reports, management meetings, etc.).

Q23: Shall the ERP provide supporting rating information in addition to the press releases/report? If so, what kind of information on the rating / rating action would be beneficial?

An important element of additional information would be to also disclose research such as detailed rating reports on the European Rating Platform. Investors interested in CRA research often have to register on the respective CRA website or even pay for research. This process is time consuming as well as cost intensive and prevents investors from accessing all relevant information on an issuer or issue. The disclosure of rating reports and research would also be a necessary pre-requisite to enable users of ratings to verify CRA assessments and not automatically or mechanistically rely on external credit ratings.

Q35: Particularly for rating users: Do you consider it of use that the ERP would provide for a mapping of rating scales to improve the comparability of ratings of different CRAs?

Yes, a mapping would be useful to improve the comparability of ratings of different CRAs, especially given the increased competition among CRAs which leads to the introduction of new rating scales.

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