

Creditreform Rating wants to increase competition

Rating agency is in the process of being accredited by the ECB

Creditreform Rating AG, located in Neuss, Germany, accepted the challenge of becoming one of the first European rating agencies to be accredited by the European Central Bank (ECB). The rating market in Europe is currently dominated by the US agencies Standard & Poor's, Moody's and Fitch, which have a cumulative market share of 93.4 percent, according to the European Securities and Markets Authority (ESMA), which is responsible for rating agencies. "We want to unsettle the dominance of the established accredited agencies and we will do our utmost in order to stimulate competition in the rating market," announces Dr. Michael Munsch, member of the board of directors of Creditreform Rating AG.

In order to conduct credit ratings for the ECB, rating agencies must meet strict criteria. The Eurosystem Credit Assessment Framework (ECAF) requires a rating agency to assess at least three out of four asset classes (uncovered bank bonds, corporate bonds, covered bonds and asset backed securities) for two thirds of the euro-zone. In each asset class, it must provide ratings for at least 10% of eligible assets and issuers, in addition to at least 20% of outstanding nominal amounts; furthermore, the rating agency is required to meet these criteria over three years.

In December 2018, Creditreform Rating met the ECB's quantitative requirements for uncovered bank bonds and corporate bonds. "We will exceed the target line for covered bonds at the turn of the year 2018/19," emphasizes Dr. Michael Munsch. For Creditreform Rating this required an immense effort. As of December, these three asset classes comprised around 20,200 securities from almost 740 issuers with a nominal volume of approximately EUR 4.32 trillion. Creditreform Rating has published country ratings of the euro-zone since the first quarter of 2017.

In order to apply for ECAF accreditation, Creditreform Rating must meet these criteria over the next three years. "We are confident that we will complete the approval process in 2022 and will be included in the ECAF credit assessment framework," says Dr. Michael Munsch.

External credit ratings are of great importance for the European financial markets. A bank can only deposit bonds as a security to the ECB, if it has a rating from one of the rating agencies accredited by the ECB. Apart from the three US agencies Standard & Poor's, Moody's and Fitch, only the Canadian rating agency DBRS is accredited.

In particular, the ECB's purchasing program of assets is of great importance for competition on the rating market. Only those securities, which are rated by an accredited agency, are considered eligible. For banks and corporates, the assessment of smaller, unaccredited rating agencies is virtually meaningless, as their securities cannot be used in the purchasing program or within the framework of the collateralization model of the Eurosystem.

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We are a rating agency recognized throughout Europe and registered by ESMA. We are specialists in credit risk assessment and offer services for capital providers and lenders in the form of ratings and credit services.

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