

Thematic Review on FSB Principles for Reducing Reliance on CRA Ratings

Peer Review Report

12 May 2014

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Foreword

Financial Stability Board (FSB) member jurisdictions have committed, under the FSB Charter and in the *FSB Framework for Strengthening Adherence to International Standards*,¹ to undergo periodic peer reviews. To fulfil this responsibility, the FSB has established a regular programme of country and thematic peer reviews of its member jurisdictions.

Thematic reviews focus on the implementation and effectiveness across the FSB membership of international financial standards developed by standard-setting bodies and policies agreed within the FSB in a particular area important for global financial stability. Thematic reviews may also analyse other areas important for global financial stability where international standards or policies do not yet exist. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation; to evaluate (where possible) the extent to which standards and policies have had their intended results; and to identify gaps and weaknesses in reviewed areas and to make recommendations for potential follow-up (including via the development of new standards) by FSB members.

This report describes the findings of the second stage of the peer review of FSB member jurisdictions' actions to implement the FSB *Principles for Reducing Reliance on CRA Ratings* (the FSB Principles),² including the key elements of the discussion in the FSB Standing Committee on Standards Implementation (SCSI). The report was prepared by a team chaired by Thomas J. Butler (United States Securities Exchange Commission), comprising Alice Alphandary (Bank of England), Philippe Caluwaerts (European Commission), Roland Cooper (Financial Services Board, South Africa), Nicoletta Giusto (Italy CONSOB), Olivier Toutain (Banque de France), Gennady Vasiliev (Ministry of Finance of the Russian Federation), Lorie Zorn (Bank of Canada), David Finnis (International Association of Insurance Supervisors), and Pablo Antolin (Organisation for Economic Co-operation and Development). Grace Sone and Tarun Singh (FSB Secretariat) provided support to the team and contributed to the preparation of the report.

¹ See FSB, *Framework for Strengthening Adherence to International Standards*, January 2010 (http://www.financialstabilityboard.org/publications/r_100109a.pdf).

² See FSB, *Principles for Reducing Reliance on CRA Ratings*, October 2010 (http://www.financialstabilityboard.org/publications/r_101027.pdf).

Glossary

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| ABCP | Asset-backed commercial paper |
| ABS | Asset-backed securities |
| APRA | Australian Prudential Regulation Authority |
| BCBS | Basel Committee on Banking Supervision |
| CCP | Central counterparty |
| CPSS | Committee on Payment and Settlement Systems |
| CRAs | Credit rating agencies |
| CRA III | Regulation (EU) No 462/2013 of the European Parliament and of the Council of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies |
| DFA | Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) |
| EBA | European Banking Authority |
| EIOPA | European Insurance and Occupational Pensions Authority |
| EC | European Commission |
| ESMA | European Securities and Markets Authority |
| EU | European Union |
| IAIS | International Association of Insurance Supervisors |
| ICAAP | Internal capital adequacy assessment process |
| IOSCO | International Organization of Securities Commissions |
| IRB | Internal ratings-based (approach) |
| LCR | Liquidity coverage ratio |
| NAIC | National Association of Insurance Commissioners |
| OECD | Organisation for Economic Co-operation and Development |
| ORSA | Own Risk and Solvency Assessment |
| PFMI | Principles for Financial Market Infrastructures |
| RBA | Reserve Bank of Australia |
| RMBS | Residential mortgage-backed securities |

Executive Summary

At the St Petersburg G20 Summit, and subsequent meetings, the G20 has called on national authorities to accelerate progress in reducing mechanistic reliance on credit rating agency (CRA) ratings in accordance with the FSB roadmap agreed in October 2012 (the Roadmap).³ To accelerate progress, the FSB decided to undertake a thematic peer review to assist national authorities in fulfilling their commitments under the Roadmap. The review was structured in two stages: the first stage, published in August 2013,⁴ comprised a structured stock-taking of references to CRA ratings in national laws and regulations, and the second and final stage – described in this report – focused on the action plans developed by national authorities to implement the Roadmap. The action plan for each national authority can be found at http://www.financialstabilityboard.org/publications/c_140429.htm.

The stock-taking exercise and development of action plans across the FSB membership represent a significant step toward reducing reliance on CRA ratings in standards, laws and regulations, but more work is needed to implement fully the agreed Roadmap. More work in the design of action plans is needed on the development of alternative standards of creditworthiness, the ways authorities will incentivise or promote own credit assessment processes, and the establishment of clear timelines for taking action. The challenges of identifying alternative standards of creditworthiness and the time required to build-up or enhance own credit risk assessment capabilities (especially for smaller entities) are hindering progress. National authorities need to intensify efforts to address these gaps in their action plans in order to meet the timelines set out in the Roadmap.

The action plans vary widely in terms of scope and ambition level, particularly in terms of the volume of measures to be taken and the policy areas that they cover. In particular, very few action plans propose alternative standards of creditworthiness even though such standards need to be implemented by market participants before end-2015 as set out in the Roadmap. Efforts to strengthen internal credit assessment capabilities are further advanced across financial sectors (e.g. banks, central banks, insurers, large investment fund managers) but financial institutions have yet to publicly disclose their own credit assessment processes as part of their public reporting.

Approaches to reduce reliance on CRA ratings also vary across jurisdictions and financial sectors. For example, for securities firms, some jurisdictions⁵ look to international standard setters (particularly the Basel Committee on Banking Supervision (BCBS)) to establish guidance before taking any concrete steps. A few jurisdictions⁶ plan to engage with financial market participants to raise awareness and determine what future actions would be desirable and how alternative definitions of creditworthiness could be developed. And finally, other jurisdictions⁷ report that there are no references to CRA ratings in their legislation and do not therefore intend

³ See FSB, *Report to G20 Finance Ministers and Central Bank Governors on the Roadmap and Workshop for Reducing Reliance on CRA Ratings*, November 2012 (http://www.financialstabilityboard.org/publications/r_121105b.pdf).

⁴ See FSB, *Interim Thematic Review on FSB Principles for Reducing Reliance on Credit Rating Agency Ratings*, August 2013 (http://www.financialstabilityboard.org/publications/r_130829e.pdf).

⁵ Australia, Canada, China, Korea, Singapore, Switzerland.

⁶ France, Germany, Hong Kong.

⁷ Brazil, China.

to undertake work in this area. Such an approach, however, may underestimate the extent of reliance on CRA ratings by market participants in their jurisdiction. Meanwhile, the United States and the European Union⁸ have already implemented comprehensive reforms through legislation requiring the removal of references to CRA ratings in their regulatory and supervisory guidance.

Progress toward the removal of references to CRA ratings from standards, laws and regulation has been uneven across the financial sectors. Reliance on such ratings persists, particularly in private contracts, investment mandates, internal limits, and collateral agreements. Reliance on ratings also remains to some extent in existing risk-based prudential frameworks for banks and insurers, where such frameworks are largely based on international standards. Central banks continue to rely on ratings in their eligibility criteria for collateral for lending facilities and in investment guidelines and mandates for foreign reserves operations.

The key challenge is developing alternative standards of creditworthiness and processes so that CRA ratings are no more than an input to credit risk assessment. National authorities and financial entities should guard against the temptation to adopt a small number of alternative measures for assessing creditworthiness in place of CRA ratings, which can result in substituted procyclicality and herd behaviour.

While good progress has been made toward removing references to CRA ratings from laws and regulations, mechanistic reliance can also come from market practices and contracts. Authorities should encourage market participants to review provisions within their private contracts which represent mechanistic reliance on CRA ratings (e.g. ratings triggers).

Progress in the banking sector largely depends on ongoing BCBS policy work reviewing approaches that refer to external CRA ratings. While promoting internal ratings-based (IRB) approaches could be seen as an alternative to CRA ratings, a range of live issues have been identified by the BCBS concerning the reliability, comparability and transparency of IRB capital charges.⁹ As such, greater usage of IRB approaches should not, in and of itself, be viewed as an alternative to CRA ratings, particularly where modelling quality and/or capability is inadequate. Other approaches to ending mechanistic reliance on CRA ratings should continue to be explored.

Similarly, in the insurance sector, jurisdictions are increasingly adopting risk-based prudential frameworks that aim to reduce reliance on CRA ratings.

Meanwhile, many large investment funds have developed internal models to estimate default probabilities and loss given default, and incorporate both quantitative and qualitative measures

⁸ The European Commission's policy of eliminating CRA ratings is set out in Article 5c of CRA III provided that appropriate alternatives to credit risk assessment have been identified and implemented.

⁹ While a greater reliance on internal models would imply effectively reducing mechanistic reliance on CRA ratings in the banking system, there is a range of live issues concerning the reliability, comparability and transparency of internal-based capital charges, such as different degrees of conservatism of internal models, and different interpretations of the BCBS standards. The BCBS monitors Basel III implementation of its membership as part of its Regulatory Consistency Assessment Programme (RCAP). Their recent study found that there is significant variation in the calculation of regulatory capital driven by a mix of differences in underlying risk and differences in banking and supervisory practices. See BCBS, *Regulatory Consistency Assessment Programme (RCAP) – Second report on risk-weighted assets for market risk in the trading book*, December 2013 (<http://www.bis.org/publ/bcbs267.pdf>); and BCBS, *Analysis of risk-weighted assets for credit risk in the banking book*, July 2013 (<http://www.bis.org/publ/bcbs256.pdf>). The use or reduced use of CRA ratings and alternatives to CRA ratings is being evaluated in the context of the jurisdictional RCAP assessments (See RCAP assessment reports on Brazil and China).

of credit risk in their risk management frameworks. Quantitative measures include market-based indicators such as credit spreads and pricing of credit default swaps (CDS).

Many central banks have expanded their own credit risk assessment capabilities and are using multiple indicators for determining creditworthiness. In addition, pension funds and investment funds are increasingly undertaking their own credit risk assessment before investing in certain assets. For securities issuance, the general consensus is that existing references to CRA ratings in laws and regulations are deemed unlikely to lead to mechanistic reliance. Finally, for central counterparties (CCPs), the action plans lack sufficient detail to express an informed assessment. However, implementation of the Principles for Financial Market Infrastructures (PFMIs), issued by the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO), will assist authorities in meeting the FSB Principles.

Drawing from the findings of the review, this report sets out some practices that may assist national authorities in refining their action plans (see Section 4) and several recommendations to address some of the challenges hindering progress toward implementing the Roadmap.

Recommendations:

1. National authorities should consider refining their action plans as lessons of experience are gained and incorporating the practices set out in Section 4 as applicable. However, they should not delay in beginning to implement their existing action plans in line with the timelines set out in the FSB Roadmap. In refining and implementing their plans, authorities should consider adopting a more coordinated and comprehensive national approach (across agencies and sectors). At the same time, they should encourage market participants to proactively promote and adopt alternative approaches that are reflective of their sector and regional differences as well as consistent with the FSB Principles.
2. National authorities should engage in dialogue with market participants on strengthening internal credit assessment processes and developing alternative measures of creditworthiness. The FSB should assist this process by organising workshops for market participants and national authorities, including those from the FSB Regional Consultative Groups, to share experiences.
3. National authorities should guard against the temptation to adopt a small number of alternative measures (for example, market-based measures such as CDS) of assessing creditworthiness in place of CRA ratings, which can result in substituted procyclicality and herd behaviour.
4. National authorities should encourage market participants to review provisions within their private contracts, such as ratings triggers, which represent mechanistic reliance on CRA ratings. In order to achieve this, national authorities could work with industry associations to develop guidance or good practices.
5. The FSB, in collaboration with the standard setting bodies, should provide clearer guidance for smaller financial entities, in particular pension funds, on how to more effectively implement the FSB Principles to address the issue of proportionality for smaller entities.
6. The standard setting bodies (CPSS, IOSCO, IAIS, OECD) should provide guidance to members on steps to further discourage reliance on CRA ratings as set out in the Roadmap. As part of this effort, CPSS and IOSCO should take stock of the use of CRA ratings in conjunction with central counterparties and identify good practices.

Introduction

In November 2012, the FSB published the Roadmap with timelines to accelerate implementation of the FSB Principles, which aim to reduce reliance on CRA ratings by banks, institutional investors and other market participants in laws, regulations and standards. The “hard wiring” of CRA ratings in regulation has been incorrectly interpreted as providing those ratings with an official “seal of approval” and has reduced incentives for firms to develop their own capacity for credit risk assessment and due diligence. As demonstrated during the financial crisis, reliance on external credit ratings to the exclusion of internal credit assessments can be a cause of herding behaviour and of abrupt sell-offs of securities when they are downgraded (“cliff effects”). These effects can amplify procyclicality and cause systemic disruption.

In order to support the agreed Roadmap, the FSB launched a thematic peer review in early 2013 with the aim of assisting national authorities in fulfilling their commitments under the Roadmap. The review focused on those aspects of the FSB Principles that are directly addressed to the official sector (see Annex A) and it was structured in two stages.

The first stage comprised a stock-taking of existing references to CRA ratings in national authorities’ laws and regulations and of reforms to reduce these references. The interim report,¹⁰ published on 29 August 2013, identified several areas where progress is still needed, including on the need for jurisdictions to provide incentives for market participants to develop their own independent credit assessment processes and to encourage or continue to enhance disclosures of financial institutions’ internal credit risk assessment practices.

This second and final stage of the peer review examined national authorities’ action plans to change laws and regulations to reduce references to CRA ratings and steps taken or being taken to promote and incentivise market participants’ own credit assessment capabilities, including encouraging or requiring disclosure of credit assessment processes.¹¹ To support the development of such plans, the FSB organised a workshop in November 2013 for national authorities to share experiences, identify good practices, and discuss areas where more guidance would be helpful to fulfil their commitments under the Roadmap (see Annex B).

Based on the information provided through the structured stock-taking exercise, action plans, FSB workshop, and relevant work of the standard setting bodies, this report assesses progress toward implementing the Roadmap. The Roadmap consists of two tracks:

- (i) efforts to reduce mechanistic reliance on CRA ratings in standards, laws and regulations, including proposals for alternative standards of creditworthiness (see Section 1); and
- (ii) efforts to promote market participants, including public sector investors, to strengthen their own risk assessment approaches as a replacement for mechanistic reliance on CRA ratings), and to encourage financial institutions to disclose information on their credit assessment processes (see Section 2).

¹⁰ Ibid., 4.

¹¹ Annex C provides a high-level summary of the action plan and the full action plan prepared by each FSB member jurisdiction can be found at http://www.financialstabilityboard.org/publications/c_140429.htm. The European Commission and European Central Bank submitted action plans for the Eurosystem; national authorities within the Eurosystem complemented these submissions with planned actions to be taken at the national level.

The first track of work is to be completed by mid-2014, but national authorities' progress in the development of proposals for alternative standards of creditworthiness has been slow, with the exception of the plan for the United States (see Section 1). As such, most market participants will likely miss the implementation date of end-2015 as set out in the Roadmap. Meanwhile, the promotion of best practice and development of guidance regarding formulation and disclosure of appropriate risk assessment practices are at a nascent stage across most financial sectors (see Section 2). As noted in the interim peer review report, national authorities' efforts to implement the Roadmap need to accelerate.

Across the FSB membership, the most comprehensive set of reforms has been implemented in the United States through implementation of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA), which requires the removal of references to credit ratings which have the potential to trigger sole or mechanistic reliance in their regulatory and supervisory guidance based on a general principle to reduce over-reliance on credit ratings. The European Union, through Article 5a and 5b of the CRA Regulation,¹² (CRA III) has made significant progress by setting out that “*without prejudice to its right of initiative, the [European] Commission will continue its review of 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*”.¹³

Based on the findings of the review, this report sets out several recommendations to assist national authorities in implementing the Roadmap (see Section 3), which is followed by a list of practices that may be helpful in the implementation of the Principles (see Section 4).

1. Reducing reliance on CRA ratings and finding alternative approaches to CRA ratings

Progress toward reducing references to CRA ratings in standards, laws and regulation has been uneven across the FSB membership and financial sectors. The key challenge is developing alternative standards of creditworthiness and processes so that CRA ratings are no more than an input to credit risk assessment.

Most action plans do not include concrete suggestions or realistic timelines for establishing alternative standards of creditworthiness across financial sectors. Some jurisdictions have indicated that concrete steps will not be taken until international standard setters provide guidance on alternative standards of creditworthiness. A few jurisdictions¹⁴ plan to engage with market participants in order to foster more discussion on alternatives and hold workshops to exchange views on possible alternatives. Others are taking steps to identify viable alternatives for assessing creditworthiness.¹⁵ The United States, however, has adopted and proposed several

¹² Regulation (EU) No 462/2014 of the European Parliament and the Council of 21 May 2013 amending Regulation EC No 1060/2009 on credit rating agencies.

¹³ See Article 5c of the CRA III regulation.

¹⁴ Germany, Singapore, Switzerland.

¹⁵ In the European Union, the European Commission has to submit a report to the European Parliament and to the Council on alternative tools to enable investors to make their own credit risk assessment by the end of 2015.

alternative standards of creditworthiness, such as using the Organisation for Economic Co-operation and Development (OECD) Country Risk Classifications as a basis for new risk-based capital requirements for financial institutions.¹⁶ These could be considered by other jurisdictions as they embark on this effort.

Work is ongoing to find alternative standards of creditworthiness in risk-based prudential frameworks for banks and insurers and for non-bank financial entities (e.g. investment funds, securities firms, securities issuance). Further efforts could be made in the case of central banks, pension funds, and CCPs. Importantly, mechanistic reliance in market practices remains to be fully addressed across all sectors.

Reliance on CRA ratings is less acute in the case of larger market participants, such as banks and insurers, which because of their size tend to have in-house capabilities to undertake risk assessments of counterparties and issuers. Many have internal models to estimate default probabilities and loss given default, and incorporate both quantitative and qualitative measures of credit risk in their risk management frameworks. Quantitative measures include market-based indicators (e.g. credit spreads, pricing of CDS or stock return volatility) and fundamental, balance sheet measures of credit risk (e.g. leverage, balance sheet liquidity, or cash-flows). Such quantitative measures are often considered in the context of industry dynamics, macro-economic data and judgments about management quality.

The sub-sections below provide more details on progress for each financial sector.

1.1 Banks

The extent of reliance on CRA ratings typically depends on the degree of sophistication of financial entities. While the majority of banks in advanced economies use internal models for establishing risk-weighted assets,¹⁷ in emerging markets¹⁸ nearly all banks use standardised approaches. Some jurisdictions, however, have established safeguards to limit reliance on CRA ratings even for banks using standardised approaches, such as requiring banks to perform their own analysis to ensure that capital charges appropriately reflect the credit risk of the bank's exposure.

Reliance on CRA ratings in laws and regulations are primarily for the purpose of regulatory capital and liquidity computations in line with the Basel Committee framework. Further progress in the banking sector hinges upon the development of alternative standards of creditworthiness by the BCBS as well as national authorities. Some FSB member jurisdictions, however, have already taken steps to reduce references to CRA ratings within their banking rules. In France, as an alternative to CRA ratings, the central bank's credit quality rating on non-financial companies can be used by banks as a reference for the purpose of regulatory capital

¹⁶ In addition, in the United States, a broker-dealer will be permitted to apply lower haircuts for commercial paper, nonconvertible debt, and preferred stock if the security has a "minimal amount of credit risk" as determined by the broker-dealer pursuant to policies and procedures the broker-dealer establishes, documents, maintains, and enforces to assess and monitor creditworthiness. A non-exhaustive list of factors that a broker-dealer could consider when determining whether a security is of minimal credit risk has been identified and include: (i) credit spreads; (ii) securities-related research; (iii) internal or external credit risk assessments; (iv) default statistics; (v) inclusion in an index; (vi) priorities and enhancements; (vii) price, yield, and/or volume; and (viii) asset class-specific factors.

¹⁷ Ibid., 9.

¹⁸ Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia, Turkey.

computations, its rating system being recognised as an external credit assessment institution (ECAI) in line with the BCBS regulatory requirements.

For credit risk, the BCBS is in the process of reviewing the standardised approach and the securitisation framework with a view to reducing undue reliance on CRA ratings in the regulatory capital framework (in Pillar 1).

Most FSB members plan to make further progress towards reducing reliance on CRA ratings in bank capital adequacy requirements within eighteen months after the Basel Committee finalises its work on the securitisation framework and the standardised approach for credit risk, which are expected around end-2014 and mid-2015, respectively.

In regard to market risk, the second consultation paper on the *Fundamental review of the trading book*¹⁹ sets out a revised standardised approach for calculating capital charges for interest rate risk and risks arising from securitisation positions held in the trading book, both of which currently rely on assessments based on CRA ratings. The alternative methods under review involve:

1. Capitalising interest rate risk based on a measurement of risks arising from variations in the present values of future cash flows of trading book instruments, due to variation in interest rates.
2. Capitalising credit spread risk in securitisation positions using a method which differentiates risk categories by credit quality (investment grade; high yield; quality by tranche seniority) without explicit reference to CRA ratings. Default risk in securitisation positions held in the trading book will be capitalised under the corresponding treatment in the banking book.

As regards the references to CRA ratings within the Basel Committee liquidity standards,²⁰ the Basel Committee concluded that it is not possible to only use market based indicators, hence CRA ratings are needed and there is no work underway to completely remove them. Nevertheless, the Basel Committee published recently the market-based-indicators guidance, which can be used by supervisors to reduce undue reliance on ratings. A few jurisdictions are reviewing whether, and to what extent, CRA ratings should be adopted as a factor for defining liquid assets for the liquidity coverage ratio (LCR).

1.2 Central bank operations

Almost all central banks continue to use CRA ratings in some manner to determine eligibility of securities, issuers and counterparties, but the degree and frequency vary by jurisdiction and activity. Central banks tend to rely more heavily on CRA ratings in their lending facilities, where minimum CRA rating requirements are typically listed as one of the eligibility criteria for collateral assets, and in foreign exchange reserves management, where ratings are often referenced in investment guidelines and mandates. In particular, reliance on CRA ratings tends

¹⁹ See BCBS, *Consultative Document on the Fundamental review of the trading book: A revised market risk framework*, October 2013 (<http://www.bis.org/publ/bcbs265.pdf>).

²⁰ See BCBS, *Guidance for Supervisors on Market-Based Indicators of Liquidity*, January 2014 (<http://www.bis.org/publ/bcbs273.pdf>); BCBS, *Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools*, January 2013 (<http://www.bis.org/publ/bcbs238.pdf>); and BCBS, *Consultative Document Basel III: The Net Stable Funding Ratio*, January 2014 (<http://www.bis.org/publ/bcbs271.pdf>).

to be stronger for central banks that accept a broader set of collateral (beyond domestic sovereign securities). Indeed, some central banks²¹ still rely on CRA ratings as the primary measure of credit risk for issuers, securities or for counterparties across all of their operations for which creditworthiness is assessed. However, many central banks²² have amended at least some areas of their operations to be in line with the FSB Principles, by either supplementing CRA ratings with other financial and/or market measures of credit risk or by undertaking part or full credit risk assessment themselves without use of CRA ratings. For example, in the assessment of eligible assets, the Eurosystem takes into account information from credit assessment systems of a variety of sources, including the national central banks' in-house credit assessment systems (ICASs), which offer an alternative to credit rating agencies for non-financial corporate ratings.

1.3 Insurance

References to CRA ratings in standards, laws and regulation remain across most FSB member jurisdictions, particularly in the calculation of an insurer's prescribed capital amount. However, their use is not considered mechanistic because CRA ratings are generally supplemented with an internal assessment of creditworthiness. For instance, the Australian Prudential Regulation Authority (APRA) requires an insurer to have a risk management framework and own internal risk measures rather than relying solely on CRA ratings. The insurer's risk management framework must provide reasonable assurance that the insurer's risks are being prudently and soundly managed, having regard to such factors as the size, mix of business and complexity of the insurer's operations. A similar approach is followed by many other jurisdictions.²³

Across the FSB membership, where relevant, removal of references to CRA ratings in standards, laws and regulation will be completed within the next two years as there was limited reliance prior to the financial crisis.

1.4 Pension funds²⁴

Many countries have reviewed their legislation pertaining to pension funds and pension schemes. In the pension funds sector, reliance on CRA ratings is relatively common, particularly for smaller pension funds. The FSB Principles recognise that the use of CRA ratings provides economies of scale in analysing credit on behalf of smaller and less sophisticated investors, and that implementation should differentiate according to size and sophistication of the firm, and according to the asset class of instruments concerned (e.g. sovereign, corporate, or structured) and the materiality of the relevant exposures. At the same time, the Principles make clear that any use of CRA ratings by a firm should not lessen its own responsibility to ensure that its credit exposures are based on sound assessments.

²¹ Argentina, China, Saudi Arabia, South Africa, Switzerland, United States. However, by July 2014 Argentina intends to start using its own internal credit risk model for reserves management purposes.

²² Australia, Brazil, Canada, France, Germany, Hong Kong, India, Italy, Japan, Korea, Mexico, Russia, Singapore, Spain, Turkey, United Kingdom.

²³ Australia, Brazil, Canada, European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), Japan, Korea, Singapore, South Africa, Switzerland, United States.

²⁴ This section also draws from the work of the OECD, which includes a review of the OECD principles for occupational pension fund regulation, workshops and a 2013 survey of the pension fund industry.

Some FSB members²⁵ still explicitly mandate the use of CRA ratings for certain asset classes (in particular for investment restrictions). An OECD survey showed that all of the surveyed pension funds use CRA ratings either in their risk management or asset management. Additionally, over 90 percent of the surveyed funds had formal investment guidelines directing the use of CRA ratings. The lack of suitable alternative approaches was indicated as the main hindrance for the removal of references to CRA ratings.

1.5 Investment funds

Many FSB members²⁶ have no remaining references to CRA ratings, and other jurisdictions²⁷ have removed most references to CRA ratings in relevant legislation. However in a few jurisdictions, little progress has been made in some cases because they have not yet started to embark on this effort.²⁸ The key challenge for all jurisdictions is to reduce market reliance on CRA ratings particularly in private investment mandates.

1.6 Securities issuance

Many jurisdictions²⁹ have removed references to CRA ratings from laws and regulations, and others³⁰ have set out a roadmap for removing such references. In a few jurisdictions, the existence of CRA ratings on securities is required to be disclosed for transparency purposes in securities offerings materials; but such requirements do not contribute to mechanistic reliance because having a CRA rating is not itself a requirement. Nonetheless, progress toward developing alternative approaches to CRA ratings has been slow.

1.7 Securities firms

Only a limited number of jurisdictions³¹ have already implemented actions to remove references to CRA ratings. For example, in the United States, each federal agency is required by law to remove all references or requirements of reliance on CRA ratings in the regulation and substitute them with alternative standards of creditworthiness. The US Securities and Exchange Commission (SEC) has already adopted amendments and is considering further rulemaking proposals to remove references to CRA ratings in the rules related to brokers-dealers. In the European Union, the CRA III Regulation requires that all references to CRA ratings in European Union law be removed by January 2020, subject to the implementation of appropriate

²⁵ Brazil, Hong Kong, India, Korea, Russia, Turkey.

²⁶ Brazil, China, European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), Saudi Arabia, South Africa, United States.

²⁷ Australia, Hong Kong, Japan, Mexico, Singapore, Switzerland.

²⁸ Korea, Russia, Turkey. In China, while authorities are assessing the possibility of implementing rules and regulations to reduce references to CRA ratings, investment funds in China are increasingly developing their own credit assessment processes and strengthening self-discipline.

²⁹ Canada, European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), South Africa, United States.

³⁰ Brazil, Korea, Turkey.

³¹ European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), United States.

alternatives to credit risk assessment.³² Meanwhile, some jurisdictions³³ have no references to CRA ratings in laws and regulations pertaining to securities firms.

1.8 Central counterparties

Most jurisdictions³⁴ do not have references to CRA ratings in laws or regulations relating to CCPs. Many jurisdictions' action plans³⁵ did not provide necessary details on the extent of references to CRA ratings in private sector margin agreements. A few jurisdictions³⁶ noted that supervisors did not have the power to require changes to private sector margin agreements. With respect to margin policies for CCPs, few FSB members have undertaken an in-depth review of the use of CRA ratings. Some jurisdictions³⁷ report that CRA ratings are only one input to margin requirements and so downgrades would not automatically trigger increased margin requirements. It is expected that jurisdictions will monitor areas in which CCPs' policies and procedures may include such reliance; namely, CCP membership criteria, eligible collateral policies, and margining policies as part of their assessment of CCPs against the CPSS-IOSCO PFMI. Implementation of these principles, which recommend CCPs establish stable haircuts that are calibrated to include periods of market stress, should help to limit procyclicality within CCP processes.

2. Efforts to strengthen own credit assessment capabilities

The FSB Principles do not imply that market participants should avoid all use of CRA ratings, but that the use of CRA ratings is combined with exercise of their own judgement on creditworthiness. Further, the FSB Principles do not imply that market participants should mechanistically rely on another source, other than credit rating agencies, to provide credit ratings. This could lead to procyclicality in the same way as the use of CRA ratings. The Roadmap recognises that reducing mechanistic reliance on CRA ratings through standards, laws and regulations could only be done if market participants strengthen their own credit assessment capabilities. Improved disclosures by issuers will facilitate the build-up of capabilities by banks,

³² A report on the steps taken as regards the deletion of references to CRA ratings which trigger or have the potential to trigger sole or mechanistic reliance shall be submitted by the European Commission to the European Parliament and the Council by the end of 2015. In particular, it is envisaged in the European Union that the current references to CRA ratings in Directive 2006/73/EC (MIFID L2 Directive) be reviewed in compliance with the FSB Principles after the adoption of the MIFID review. European Union Member States' national laws will be amended accordingly. The CRA III Regulation also requires the European Supervisory Authorities (ESMA, EBA and EIOPA) to review and remove, where appropriate, all references to credit ratings in existing guidelines, recommendations and standards which trigger or have the potential to trigger sole or mechanistic reliance on CRA ratings by end 2013. See, European Supervisory Authorities (ESA), *Final Report on Mechanistic references to credit ratings in the ESAs' guidelines and recommendations*, 6 February 2014 (https://eiopa.europa.eu/fileadmin/tx_dam/files/consultations/consultationpapers/JC-CP-2013-02/JC_2014_004_Final_Report_Mechanistic_References_to_Credit_Ratings_rect....pdf)

³³ Brazil, Saudi Arabia, South Africa, Turkey.

³⁴ Exceptions are Hong Kong, India.

³⁵ Argentina, Brazil, Canada, China, Germany, Hong Kong, Indonesia, Italy, Japan, Mexico, Netherlands, Russia, Singapore, South Africa, Spain, Switzerland, Turkey, United Kingdom, United States. Not applicable to Korea or Saudi Arabia where no CCP operates in the markets.

³⁶ France, India.

³⁷ France, Germany, United Kingdom, United States.

investment managers and institutional investors to conduct their own assessment of creditworthiness of the financial products in which they invest and hence enhance their ability to reduce reliance on CRA ratings. At the same time, requiring public disclosures of internal credit risk assessment processes, including how CRA ratings are used or not used, could encourage market participants to develop more rigorous processes. In this same manner, the Roadmap indicates that public sector bodies that are investors or market participants should also disclose information about their credit risk assessment processes and strategies to achieve the FSB Principles.

As set out in the FSB Principles, supervisors and regulators should encourage banks to strengthen or develop own credit assessment processes while intensifying their oversight of internal credit models and guarding against incentives for institutions to inflate internal ratings. The key challenge is differentiating according to size and sophistication of institutions, and according to the asset class of instruments concerned (e.g. sovereign, corporate, or structured) and the materiality of the relevant exposures.

2.1 Banks

The BCBS has issued numerous principles and guidance to increase supervisory expectations for banks' overall risk management, including the BCBS *Principles for the Management of Credit Risk* and the *Principles for the Sound Management of Operational Risk*.³⁸ These principles and guidance recommend that banks have adequate risk management capacities and are encouraged to develop and utilise an internal risk rating system in managing credit risk, which should be consistent with the nature, size and complexity of a bank's activities. Internal risk ratings are an important tool in monitoring and controlling credit risk. Credits with deteriorating ratings are generally subject to more intense oversight and monitoring, for example, through inclusion on a watch list that is regularly reviewed by senior management. The ratings assigned to individual borrowers or counterparties at the time the credit is granted is usually reviewed periodically and new credit ratings are assigned when conditions either improve or deteriorate. The consistency and accuracy of the internal ratings are usually examined by an independent control function, such as an independent credit review group.

Supervisory approaches toward assessing the adequacy of banks' own credit assessment processes are largely embedded in onsite and offsite examinations of banks' credit risk management. For smaller or less sophisticated banks, supervisors generally determine that the credit risk management approach used is sufficient for their activities and that they have instilled sufficient risk-return discipline in their credit risk management processes.

2.2 Central bank operations

Many central banks have made progress toward developing internal credit risk assessments or are looking into ways to enhance those capabilities. The rising number of in-house credit assessment systems operated by central banks in the Eurosystem is one example of such a development. Moreover, a number of central banks³⁹ have established in-house credit risk

³⁸ See BCBS, *Principles for the Management of Credit Risk*, September 2000 (<http://www.bis.org/publ/bcbs75.pdf>); BCBS, *Principles for the Sound Management of Operational Risk*, June 2011 (<http://www.bis.org/publ/bcbs195.pdf>).

³⁹ Canada, France, Germany, Hong Kong, Italy, Japan, Korea, Mexico, Spain, Turkey, United Kingdom.

groups. In addition, some central banks⁴⁰ are developing the ability to perform their own fundamental credit risk assessments that would not incorporate CRA ratings at all. On the other hand, other central banks⁴¹ have indicated that they will likely not take further measures to develop their credit risk assessment capabilities, mostly because they view that their own use of CRA ratings is not mechanistic and therefore acceptable.

Examples of steps taken or planned by central banks to directly or indirectly reduce reliance on CRA ratings in their monetary policy operations include improving transparency on assets that are eligible as collateral in these operations to facilitate risk assessments by the central bank and other market participants. For one, the Eurosystem has amended the eligibility criteria for asset-backed securities (ABS) to be posted as collateral by introducing standardised loan-by-loan disclosure requirements. Likewise, the Reserve Bank of Australia (RBA) has announced the introduction of new disclosure requirements for residential mortgage-backed securities (RMBS) to become effective by end-2014 and the Bank of England has required loan-level disclosures for a number of securitised asset classes since 2010. The Bank of Canada set out transparency requirements for asset-backed commercial paper (ABCP) accepted as collateral in its standing facility in March 2008.

Internal capabilities for assessing credit risk are more developed in the area of foreign reserves management. However, the extent to which central banks have increased their risk assessment capacity varies considerably, given large differences in their scope of foreign reserves investment, such as eligible asset classes, issuers and counterparties.

Several central banks are in the process of establishing internal rating / risk assessment systems to monitor foreign exchange counterparties and issuers on a more continuous basis than in the past. Since foreign exchange reserves remain predominantly invested in advanced economy sovereign debt securities, actions taken by central banks have typically focused on enhancing the assessment of sovereign risks. Specific measures include the development of credit scoring systems or internal rating methodologies⁴² and regular back-testing of existing frameworks.⁴³ Many central banks point to more intense monitoring of market data to inform and improve their risk assessment, including the assessment of counterparty risks.

2.3 Insurance

The International Association of Insurance Supervisors (IAIS) strengthened its insurance core principles (ICPs) for effective supervision in 2011,⁴⁴ which raised expectations for insurers' own credit assessment processes. More specifically, the insurance core principle on enterprise risk management for solvency purposes (ICP 16) includes five standards on the "Own Risk and Solvency Assessment" (or ORSA). The principle is already being applied in Australia as part of the Internal Capital Adequacy Assessment Process (ICAAP) and supervisory review. In Canada, an ORSA is expected that assumes clear "ownership" of all risks.

⁴⁰ Argentina, Brazil, Canada, Turkey.

⁴¹ India, Indonesia, Saudi Arabia, Switzerland, United States.

⁴² Brazil, Canada, Hong Kong.

⁴³ Netherlands.

⁴⁴ See IAIS, *Insurance Core Principles, Standards, Guidance and Assessment Methodology*, October 2011 (<http://www.iaisweb.org/Supervisory-Material/Insurance-Core-Principles-795>).

In addition, the European Insurance and Occupational Pensions Authority (EIOPA) has issued detailed guidelines on the contents of an ORSA as part of the Solvency II regime (planned for implementation in 2016) and in the United States, the National Association of Insurance Commissioners (NAIC) is working through the process of refining ORSA. Whilst ICP 16 includes no specific standards on credit risk, it is very clear that, as part of overall risk management, responsibility for assessment and management of such risk should not be delegated to a third party.

The insurance principle on capital adequacy (ICP 17) further includes standards and guidance on the use of internal models. Already several jurisdictions are incorporating authorisation of internal models into their supervisory processes. These are aimed primarily at capital needs, but the “use test” ensures that authorisation of such models is reliant on their use within the overall enterprise risk management of the insurer. Again it is implied strongly that this relates to all risks, including credit risk.

The IAIS is developing and testing a common framework for the supervision of Internationally Active Insurance Groups (or “ComFrame”), which is an initiative that is expected to build and expand upon these ICPs, standards and guidance.

2.4 Pension funds

The supervision of pension funds is being strengthened as a part of the process to reduce the reliance on CRA ratings. Many jurisdictions⁴⁵ state that greater emphasis is being put on monitoring the adequacy of the internal credit risk assessment process. However, a key challenge is how to provide smaller pension funds with alternatives to conduct credit assessments without solely relying on CRA ratings, whereas many larger pension funds have developed own credit assessment capabilities. In a few countries,⁴⁶ supervisors require pension funds to provide information on their risk assessment procedures. In Australia, this includes detailing the ratings on investments and the sources of the ratings information; Australia is also further developing prudential guidelines to clarify the expectations on risk and asset management. In a few jurisdictions,⁴⁷ the supervisor does not have the authority to conduct such an assessment.

2.5 Investment funds

Some FSB jurisdictions⁴⁸ have introduced a requirement for investment funds managers to conduct their own credit risk assessment before investing in certain assets, or require certain documentation of the credit risk assessment process. Most authorities, as part of their ongoing supervision, conduct periodic reviews of the investment policies covering internal limits and credit assessment processes.⁴⁹

⁴⁵ Australia, European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), Japan, Turkey, United States.

⁴⁶ Australia, Brazil, India.

⁴⁷ Korea, Russia.

⁴⁸ Brazil, European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), Hong Kong, South Africa.

⁴⁹ Australia, Brazil, Canada, European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), Japan, Mexico, Saudi Arabia, South Africa, United States.

2.6 Securities issuance

While securities offerings materials contain a lot of information on credit risk, little effort is being made by most regulators to incentivise issuers to disclose comprehensive, timely information following issuance so as to enable investors to make their own independent investment judgements and credit risk assessments of those securities. A notable exception is the United States, where the SEC's approach to disclosing risk is a package of long standing disclosure and enforcement tools. More recently, the SEC has proposed that ABS issuers in registered transactions provide investors with a minimum amount of time to review transaction-specific information before an investment decision. The SEC has also proposed to require that ABS issuers provide investors with information about each asset in the underlying pool. The European Union, through its CRA regulation, is progressing toward adopting a similar approach for securitised assets.

2.7 Securities firms

Apart from the adoption of internal credit assessments for purposes of prudential requirements, a number of jurisdictions have introduced incentives for securities firms to make their own credit risk assessment for the purposes of making investment or lending decisions. As described below, such incentives include general provisions that prevent or caution against over-reliance on credit ratings,⁵⁰ requirements for appropriate credit risk assessment processes and risk management procedures,⁵¹ know-your-product obligations,⁵² the obligation to act in the best interest of client,⁵³ disclosure or reporting obligations about the firm's credit assessment processes.⁵⁴

It has been noted by a few jurisdictions,⁵⁵ however, that the development of internal risk assessment systems may be particularly challenging for small securities firms, due to resource requirements and the relative scarcity of expertise in credit risk analysis.

Some jurisdictions⁵⁶ tend to consider that no alternative standards of credit assessments are necessary since the references to CRA ratings in laws and regulations pertaining to securities firms are deemed unlikely to encourage mechanistic reliance.

Only few jurisdictions⁵⁷ indicate having taken or planned measures to encourage disclosure or reporting of internal credit risk management practices by securities firms, often as a means to facilitate the monitoring of compliance with capital requirements by the authorities.

IOSCO is currently conducting further work to address the reliance on credit ratings by market intermediaries in member jurisdictions and, most importantly, to identify sound practices

⁵⁰ European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), Switzerland.

⁵¹ Australia, Canada, European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), Hong Kong, Japan, United States.

⁵² Canada, Mexico, United States.

⁵³ Italy, United States.

⁵⁴ European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom)

⁵⁵ Singapore, Spain, Switzerland.

⁵⁶ Brazil, China.

⁵⁷ European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), United States.

currently in place at large intermediaries with regard to the use of alternatives to credit ratings to assess creditworthiness.

2.8 Central counterparties

The CPSS-IOSCO PFMI establish and strengthen standards for risk management at CCPs. Close examination of CCP risk frameworks in carrying out assessments against the PFMI will in itself reveal where any mechanistic reliance exists and provide impetus to further change. In addition, the establishment of supervisory colleges for some CCPs will strengthen supervision and oversight of international CCPs. Another set of measures includes waiving CRA rating thresholds for specific collateral assets.

Reliance on CRA ratings will tend to decline if the share of collateral assets that are subject to internal credit risk assessments increases within existing collateral frameworks.

3. Conclusions and recommendations

One of the key findings of the peer review is that national authorities need to re-focus on the objectives of the FSB Principles to end *mechanistic* reliance on CRA ratings by market participants and establish stronger internal credit risk assessment practices instead. Such an objective is not about the eradication of CRA ratings but is instead about the exercise of sound judgement in assessing creditworthiness. In some instances, this may entail a fully independent risk assessment, and in other instances this may allow using CRA ratings as one indicator, among others, of credit risk.

Other key findings include:

- All FSB members have conducted a stock-take of references to CRA ratings in standards, laws and regulations and have prepared action plans. This effort has identified the abundance of references to CRA ratings in some instances, limited reference in others and still in other instances no references.
- National authorities' progress toward the removal of references to CRA ratings from standards, laws and regulation has been uneven given the different starting points for each jurisdiction.
- Very few jurisdictions have proceeded with developing alternative standards of creditworthiness. Further progress toward the removal of references to CRA ratings is made more difficult by the challenges of identifying suitable alternative definitions of creditworthiness, and the time required to build-up enhanced own risk assessment capabilities (especially for smaller entities).
- In many cases, the action plans do not to date provide sufficient details and timelines to ensure that the goals set out in the Roadmap will be met across all jurisdictions and financial sectors. In particular, many action plans fail to articulate concrete steps to develop proposals for alternative standards of creditworthiness and incentives for market participants to develop or enhance their own risk assessment processes. The review of some action plans also suggests a lack of coordination in how those action plans were developed, which may reflect the fact that different agencies were responsible for disparate sectors within the jurisdiction.

- Most FSB members are waiting for the international standard setting bodies to develop global standards, which should facilitate implementation of the Roadmap and national action plans.

Drawing from the action plans and discussions from the FSB workshop held in November, this report sets out several recommendations to ensure that progress toward implementation of the Roadmap continues by targeting areas where more work is needed.

Recommendations:

1. National authorities should consider refining their action plans as lessons of experience are gained and incorporating the practices set out in Section 4 as applicable. However, they should not delay in beginning to implement their existing action plans in line with the timelines set out in the FSB Roadmap. In refining and implementing their plans, authorities should consider adopting a more coordinated and comprehensive national approach (across agencies and sectors). At the same time, they should encourage market participants to proactively promote and adopt alternative approaches that are reflective of their sector and regional differences as well as consistent with the FSB Principles.
2. National authorities should engage in dialogue with market participants on strengthening internal credit assessment processes and developing alternative measures of creditworthiness. The FSB should assist this process by organising workshops for market participants and national authorities, including those from the FSB Regional Consultative Groups, to share experiences.
3. National authorities should guard against the temptation to adopt a small number of alternative measures (for example market-based measures such as CDS) of assessing creditworthiness in place of CRA ratings, which can result in substituted procyclicality and herd behaviour.
4. National authorities should encourage market participants to review provisions within their private contracts, such as ratings triggers, which represent mechanistic reliance on CRA ratings. In order to achieve this, national authorities could work with industry associations to develop guidance or good practices.
5. The FSB, in collaboration with the standard setting bodies, should provide clearer guidance for smaller financial entities, in particular pension funds, on how to more effectively implement the FSB Principles to address the issue of proportionality for smaller entities.
6. The standard setting bodies (CPSS, IOSCO, IAIS, OECD) should provide guidance to members on steps to further discourage reliance on CRA ratings as set out in the Roadmap. As part of this effort, CPSS and IOSCO should take stock of the use of CRA ratings in market practice for central counterparties and identify good practices.

4. Practices that may assist in the implementation of the Principles

Drawing from the findings of the review, some practices were identified that could assist authorities as they refine their action plans. Although the practices were identified within specific areas, a few are more broadly applicable.

Banks

- Publication of a circular highlighting alternatives to CRA ratings and the scope of other information available (e.g. business reports, balance sheet, prospectuses, information circulating in media, own or external analysis, credit spreads, equity market, analysis of the methods used by credit rating agencies forming their judgement) could encourage a broader credit risk analysis. This is the case in Germany and the US.
- The exchange of ideas between market players, academics and relevant regulatory and supervisory agencies through workshops, such as the FSB workshop in November 2013, should be encouraged.

Central bank operations

- A few central banks appear to have taken a multi-stage approach to reducing reliance on CRA ratings. For example, the Central Bank of Brazil did a thorough stock-take of its existing processes in addition to best market practices in credit assessment, and based on these findings is implementing a balanced framework for assessing credit risk. The Turkish central bank formed a group after the crisis to review and validate CRA methodologies and increase internal capabilities.
- In addition to conducting internal credit risk assessments, the central banks in Canada and the United Kingdom have set up a governance framework that includes an internal credit committee that can review and challenge internal credit risk assessments.
- For those central banks that are continuing to rely mainly upon CRA ratings, some have taken steps to reduce volatility/procyclicality. Some central banks use average ratings or second best ratings (Canada, France, Korea), potentially reducing required action upon one rating change. Some central banks, such as the European Central Bank, can exercise discretion upon downgrades. Other central banks use a downgrade as a trigger to conduct a more thorough assessment of credit risk.
- The Eurosystem has amended the eligibility criteria for ABS to be posted as collateral by introducing standardised loan-by-loan disclosure requirement. Similarly, RBA is increasing the reporting requirements⁵⁸ related to ABS that are eligible for repurchase agreement with the RBA from the end of 2014. Whilst the primary motivation is to assist with internal risk management, most of the information collected will be provided publicly.

Insurers

- Many jurisdictions⁵⁹ have strengthened risk management practices. For instance, the United States and European Union require ORSAs. Australia and Canada also have similar requirements.

⁵⁸ Issuers of these securities will need to provide detailed information on the structure of these transactions (including information on external parties and a model of how cash flows are to be distributed) and, in many cases, data on the individual loans underlying the transaction.

⁵⁹ Australia, Canada, European Union (France, Germany, Italy, Netherlands, Spain, United Kingdom), Japan Korea, Singapore, South Africa, United States.

Pension funds

- Clear guidelines for credit risk assessment by pension funds should be created. APRA has implemented a suite of prudential guidance material relating to investment governance for pension entities that will clarify the expectation from the trustee role beyond solely relying on the opinion of external advisors when deciding whether an investment is appropriate. In Germany, pension funds are obliged to assess investments which have a standard market rating. If the assessment shows a comparable or lower result an additional quantitative assessment will be necessary.

Securities issuance

- Some jurisdictions⁶⁰ are considering initiatives with industry – such as firm-specific discussion, stock-taking exercises, and/or roundtables to encourage compliance with the FSB Principles.

Securities firms

- Some national authorities⁶¹ review credit assessment processes as part of their ongoing supervision of securities firms.
- Authorities could impose disclosure, reporting or recordkeeping requirements for securities firms in relation to their credit assessment processes.
- Authorities could engage with market participants (for instance through firm-specific discussions, surveys, workshops, etc.) to better understand the extent of reliance on CRA ratings in market practice and encourage securities firms to enhance their risk assessment capabilities.

Collateral policies for CCPs

- The National Clearing Centre, the Russian CCP, uses CRA ratings only as an entry criterion for counterparty and issuer eligibility. As such, there is no mandatory disposal of assets once they are downgraded below the minimum entry level. The National Clearing Centre only accepts collateral from the Bank of Russia's Lombard List, which is more likely to be expanded in times of stress (as it was in 2008-09) so can be considered a countercyclical tool.
- Many CCPs are currently/or have recently reviewed their risk frameworks to ensure that they are consistent with the CPSS-IOSCO PFMI. Implementation of the PFMI should help facilitate meeting the FSB Principles for all relevant jurisdictions.

⁶⁰ Australia, Germany, Switzerland.

⁶¹ Australia, Canada, France, Hong Kong, Italy, Netherlands, United States.

Annex A: FSB Principles for reducing reliance on CRA ratings

Principle I: Reducing reliance on CRA ratings in standards, laws and regulations

Standard setters and authorities should assess references to credit rating agency (CRA) ratings in standards, laws and regulations and, wherever possible, remove them or replace them by suitable alternative standards of creditworthiness.

- *References to CRA ratings should be removed or replaced only once alternative provisions in laws and regulations have been identified and can safely be implemented.*
- *It is particularly pressing to remove or replace such references where they lead to mechanistic responses by market participants.*
- *Standard setters and authorities should develop alternative definitions of creditworthiness and market participants should enhance their risk management capabilities as appropriate to enable these alternative provisions to be introduced.*
- *Standard setters and authorities should develop transition plans and timetables to enable the removal or replacement of references to CRA ratings wherever possible and the associated enhancement in risk management capabilities to be safely introduced.*

Principle II: Reducing market reliance on CRA ratings

Banks, market participants and institutional investors should be expected to make their own credit assessments, and not rely solely or mechanistically on CRA ratings.

- *The design of regulations and other official sector actions should support this principle.*
- *Firms should ensure that they have appropriate expertise and sufficient resources to manage the credit risk that they are exposed to. They may use CRA ratings as an input to their risk managements, but should not mechanistically rely on CRA ratings.*
- *Firms should publicly disclose information about their credit assessment approach and processes, including the extent to which they place any reliance on, or otherwise use, CRA ratings.*
- *Supervisors and regulators should closely check the adequacy of firms' own credit assessment processes, including guarding against any upward biases in firms' internal ratings.*

Application of the basic principles to particular financial market activities

Principle III.1: Central bank operations

Central banks should reach their own credit judgements on the financial instruments that they will accept in market operations, both as collateral and as outright purchases. Central bank policies should avoid mechanistic approaches that could lead to unnecessarily abrupt and large changes in the eligibility of financial instruments and the level of haircuts that may exacerbate cliff effects.

Central banks should avoid mechanistic use of CRA ratings by:

- *except when infeasible, making independent determinations of whether a financial instrument should be eligible in its operations (both by being prepared to reject assets offered as collateral or for outright purchase despite their external ratings and by assessing whether any external rating change should lead to a change in a financial instrument's eligibility or haircut);*
- *reserving the right to apply risk control measures such as additional haircuts to any individual financial instruments or classes of collateral based on an internal risk assessment; and*
- *reserving the right to apply additional risk control measures such as additional haircuts to any individual financial instrument that has not been subject to an internal risk assessment by the central bank.*

Principle III.2: Prudential supervision of banks

Banks must not mechanistically rely on CRA ratings for assessing the creditworthiness of assets. This implies that banks should have the capability to conduct their own assessment of the creditworthiness of, as well as other risks relating to, the financial instruments they are exposed to and should satisfy supervisors of that capability.

- *In order to provide market discipline, banks should publicly disclose information about their credit assessment approach, and the proportion of their portfolio (or of particular asset classes) for which they have not conducted an internal credit assessment. This could be required for instance through Pillar 3 of the Basel II framework.*
- *Banks using the standardised Basel II approach currently have minimum capital requirements based on CRA credit ratings. As long as some banks continue to have capital requirements based on CRA ratings, supervisory processes should be put in place to check the understanding of the appropriate uses and limitations of CRA ratings by these banks' risk managers.*

III.2.a: Larger, more sophisticated banks within each jurisdiction should be expected to assess the credit risk of everything they hold (either outright or as collateral), whether it is for investment or for trading purposes.

- *In order to ensure that credit risks are adequately managed, banks should, where needed, enhance their capacity for internal credit assessment.*
- *Supervisors should incentivise banks to develop internal credit risk assessment capacity, and to increase use of the internal-ratings-based approach under the Basel capital rules. In order to do this, supervisors should enhance their ability to oversee and enforce sound internal credit policies.*
- *This may require an increase in resources devoted to bank risk management and supervisory oversight of risk management.*

III.2.b: Smaller, less sophisticated banks may not have the resources to conduct internal credit assessments for all their investments, but still should not mechanically rely on CRA ratings and should publicly disclose their credit assessment approach.

- *Such banks should understand the credit risks underlying their balance sheet as a whole and, for all exposures that would materially affect the bank's performance, should make a risk assessment commensurate with the complexity and other characteristics of the investment product and the materiality of their holding.*

Principle III.3: Internal limits and investment policies of investment managers and institutional investors

Investment managers and institutional investors must not mechanically rely on CRA ratings for assessing the creditworthiness of assets. This principle applies across the full range of investment managers and of institutional investors, including money market funds, pension funds, collective investment schemes (such as mutual funds and investment companies), insurance companies and securities firms. It applies to all sizes and levels of sophistication of investment managers and institutional investors.

III.3.a: Investment managers should conduct risk analysis commensurate with the complexity and other characteristics of the investment and the materiality of their exposure, or refrain from such investments. They should publicly disclose information about their risk management approach, including their credit assessment processes.

III.3.b: Senior management and boards of institutional investors have a responsibility to ensure that internal assessments of credit and other risks associated with their investments are being made, and that the investment managers they use have the skills to understand the instruments that they are investing in and exposures they face, and do not mechanically rely on CRA ratings. Senior management, boards and trustees should ensure adequate public disclosure of how CRA ratings are used in risk assessment processes.

III.3.c: Regulatory regimes should incentivise investment managers and institutional investors to avoid mechanistic use of CRA ratings.

- *Regulators of investment managers should enhance their ability to oversee and enforce sound internal credit policies.*

Principle III.4. Private sector margin agreements

Market participants and central counterparties should not use changes in CRA ratings of counterparties or of collateral assets as automatic triggers for large, discrete collateral calls in margin agreements on derivatives and securities financing transactions.

III.4.a: Supervisors should review the margining policies of market participants and central counterparties to guard against undue reliance on CRA ratings.

Principle III.5: Disclosures by issuers of securities

Issuers of securities should disclose comprehensive, timely information that will enable investors to make their own independent investment judgements and credit risk assessments of those securities. In the case of publicly-traded securities, this should be a public disclosure.

III.5.a: Standard setters and authorities should review whether any references to CRA ratings in standards, laws and regulations relating to disclosure requirements are providing unintended incentives for investors to rely excessively on CRA ratings and, if appropriate, remove or amend these requirements.

Annex B: Roadmap for reducing reliance on CRA ratings

| 1: Reduce references to CRA ratings in standards, laws and regulation | | |
|---|---|-----------|
| BCBS | Complete work to identify remaining elements of the Basel framework that will be reviewed for potential to reduce the reliance on CRA ratings across the Basel framework | end-2012 |
| | Develop policy proposals for alternative approaches to reliance on CRA ratings. | mid-2014 |
| | Adoption by jurisdictions | from 2016 |
| IOSCO, IAIS, OECD | Provide guidance to members on steps to further discourage reliance on CRA ratings | end-2013 |
| National authorities | Complete the stock-taking of legislation/regulation for potential reform (supervisors, central banks, market regulators, finance ministries), possibly followed by peer review | mid-2013 |
| | Identify/prioritise areas for changes and publicly disclose action plan | mid-2013 |
| | Propose alternative approaches to CRA references/requirements for public comment | mid-2014 |
| | Confirm final changes | end-2014 |
| | Implementation by market participants is completed | end-2015 |
| 2: Strengthen credit assessment capabilities | | |
| SSBs: | Lead discussion(s) across members to share ideas and experiences, and to better define best practice | Ongoing |
| National authorities | Promote best practice: organise roundtable discussions across public sector, industry, and academia | Ongoing |
| (Policy): | Develop guidance regarding formulation and disclosure of appropriate risk assessment practices | mid-2014 |
| | Encourage disclosure by financial institutions of information about their credit risk assessment processes as part of their public reporting | end-2013 |
| Public sector investors | Public sector bodies that are investors or market participants disclose information about credit risk assessment processes and strategy to achieve FSB Principles | end-2013 |
| | Participate in national authorities' roundtable discussions at international/national levels | Ongoing |

Annex C: High-level summary of national authorities' action plans

High-level summary of national authorities' action plans – Argentina

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|---|--|--|-------------------------------|------------------------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • No reliance in monetary policy operations. • For reserves management, uses CRA ratings to set portfolio limits. | <ul style="list-style-type: none"> • Implementing a credit risk assessment framework for reserves management that would review a range of metrics including CDS spreads. | | | BCRA | End June 2014 |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • Minimum rating requirements exist for debtors and financial institutions to be eligible for a more favourable treatment in regard to limits on lending. • As of 31 October 2013, there were 65 banks, 15 specialised financial institutions and 2 credit unions licensed in Argentina; all of them subject to the BCBS standardised approach for credit risk, slightly modified to avoid references to CRA ratings. All these institutions are also subject to minimum requirements for market risk that produce similar results to those of the BCBS standardised approach but avoid references to CRA ratings. As a conclusion, 100% of RWA are covered by both standardised approaches (for credit and market risks). Total assets amounted to US\$163B and total RWA (including operational risk) to US\$132B. | | <ul style="list-style-type: none"> • Made enhancements to the guidelines on risk management by incorporating the Pillar 2 rules on credit risk management. As an example, section 2.3.2.2 of these guidelines sets forth high expectations for bank's own credit assessments. • For the scarce remaining references, new alternatives and amendments to existing regulation are under study in order to ensure prudent risk taking and to promote sound risk management practices. | | BCRA | 1 st half of 2014 |

High-level summary of national authorities' action plans – Argentina

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|---|---|---|-------------------------------|-----------------|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> No references to CRA ratings in laws and regulations. CCPs under supervision by CNV are prevented from relying on CRA ratings. | | | <ul style="list-style-type: none"> New law passed in February 2013 that requires CCPs to adhere to CPSS-IOSCO PFMI, which sets out requirements for CCPs to undertake in-depth in-house risk assessment and risk management. | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> All references to CRA ratings have already been removed from insurance laws and regulations. No further action required. | <ul style="list-style-type: none"> No plans (admissible assets are defined in law, so no further action is deemed necessary). | | | | |
| Pension sector <i>Principle III.3</i> | | | | | | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> CRA ratings have never been an important factor in investment managers' regulation. Almost all references to CRA ratings have been removed by 2012. | <ul style="list-style-type: none"> Further policy guidance and inputs from the workshop and other countries' experiences will be considered. | <ul style="list-style-type: none"> No specific requirements for investment managers. | <ul style="list-style-type: none"> No specific actions undertaken. | CNV | |
| Securities issuance <i>Principle III.3</i> | | | | | CNV | |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> Few references to CRA ratings in local regulation with limited concrete applicability – securities firms operate on an agency basis and neither advise nor assume risk for the positions traded. | | | | CNV | |

High-level summary of national authorities' action plans – Australia

| Publication date: June 2014 | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|--|--|---------------------------|-----------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • CRA ratings are one factor in determining repo eligibility and haircuts of authorised deposit-taking institutions (ADIs), non-domestic government and supranational debt in monetary policy operations. • Foreign exchange and reserve management: counterparties for some products must meet a minimum average CRA rating. Foreign exchange (FX) reserve asset eligibility and risk limits also use CRA ratings as one input to the risk management decision. | <ul style="list-style-type: none"> • Internal credit assessments of ABS are used to apply haircuts above ABS minimum. | <ul style="list-style-type: none"> • From 2015, RMBS must meet new transparency requirements to allow collateral to be assessed internally by the RBA. | | RBA | End 2014 |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • Five of the largest banks use the IRB approach to assess credit risk, representing around 84% of total banking assets. • The remainder of ADIs use the standardised approach to determine credit risk. | | <ul style="list-style-type: none"> • Banks using the IRB approach must initially seek approval from APRA to use the IRB approach and are also subject to ongoing monitoring and review. • ADIs using the standardised approach are also actively supervised. | <ul style="list-style-type: none"> • APRA has a robust framework and supervisory approach to assess that ADIs adequately manage their exposure to credit risk. | APRA | |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • No references to CRA ratings in standards set by Australian regulators. • CRA ratings play no direct role in initial margin requirements, no role in membership criteria and are only one input to CCPs' credit risk assessment processes. | | | <ul style="list-style-type: none"> • The RBA assesses CCPs annually against its Financial Stability Standards, which are aligned with CPSS-IOSCO PFMI and so CCPs must undertake in-depth in-house risk assessment and risk management. | | |

High-level summary of national authorities' action plans – Australia

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|---|---|--|---|--|---------------------------|-----------------|
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> Not considered mechanistic. Prudential guidance recently released clarifies need for internal risk management. Therefore no further action expected. | <ul style="list-style-type: none"> APRA’s current supervision activity includes monitoring of this issue – and will be continued in future. | <ul style="list-style-type: none"> Active encouragement of development of internal risk measures by insurers. | <ul style="list-style-type: none"> As part of APRA’s active supervision, APRA assesses how insurers supplement external credit ratings when assessing creditworthiness of counterparties. | APRA | |
| Pension sector <i>Principle III.3</i> | | <ul style="list-style-type: none"> The supervisor has implemented prudential guidance material relating to investment governance for superannuation (pension) entities. | | <ul style="list-style-type: none"> The supervisor uses its risk-based supervisory processes and procedures to check the adequacy of pension funds’ credit assessment processes. | APRA | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> No references to CRA ratings in investment funds management legislation. | <ul style="list-style-type: none"> Australian Securities and Investments Commission (ASIC) is exploring ways to encourage industry to develop internal risk measures through its existing regulatory regime. This includes discussion with industry on best practice. | <ul style="list-style-type: none"> Requirement for entities to have a compliance committee. Duty to exercise reasonable care and diligence covering mechanistic reliance on credit ratings. | | ASIC | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> Not applicable as the major credit rating agencies in Australia lack retail licences meaning that ratings cannot be used for public securities issuances. | | | | ASIC | |

High-level summary of national authorities' action plans – Australia

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|---|---|--|--|---|---------------------------|--|
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> Limited references in ASIC's capital liquidity rules for market intermediaries that are Australian Securities Exchange (ASX) equity market participants – references are not mechanistic in practice due to application and limited actual reliance on rules. | <ul style="list-style-type: none"> Closely monitor international policy developments and actively contribute to international work (IOSCO, BCBS). | | <ul style="list-style-type: none"> Monitoring the conduct of market participants. Planned to survey Australian securities firms to better understand the manner and degree to which they mechanistically rely on ratings. | ASIC | Australia will continue to actively contribute to international work on reducing mechanistic reliance on CRA ratings, including further work by SSBs on alternative approaches to the use of CRA ratings. Over the next 12 months, ASIC will also review and assess already identified references to CRA ratings affecting securities firms. |

High-level summary of national authorities' action plans – Brazil

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|--|--|---------------------------|-----------------|
| <p>Central bank operations</p> <p><i>Principle III.1</i></p> | <ul style="list-style-type: none"> • No reliance on CRA ratings for regular monetary policy operations (open market operations and standing facilities, which accept only securities issued by the National Treasury as collateral). • Issuers' credit risk ratings assigned internally by banks for provisioning purposes are used by the Central Bank of Brazil (BCB) to evaluate collateral (mostly bank loans) posted in lending operations (terms longer than overnight, collateral other than government securities). These ratings are based on market participants' internal and external information, which may or may not include CRA ratings, and are regularly informed to the credit bureau system managed by the BCB. • For international reserves management, the BCB employs external ratings to establish the eligibility, maximum amounts of exposure, and maximum terms of operations for counterparties and issuers. CRA ratings and other | <ul style="list-style-type: none"> • For domestic lending operations, BCB already employs measures other than CRA ratings to assess credit risk for non-sovereign collateral. • For international reserves management, BCB is developing a multi-phase project to undertake own credit risk assessment; CRA ratings will only be an input to the process. First stage is to develop a methodology to assess sovereigns and supranationals and to train analysts in these techniques. | <ul style="list-style-type: none"> • For domestic lending operations, BCB has no plans to develop an own credit risk assessment for non-financial companies, due to the high costs to implement such activity and the rareness of these operations. • For international reserves management purposes, BCB has taken steps to increase internal expertise on credit assessment techniques and to reduce possible cliff effects that may arise from using CRA ratings. | | BCB | End 2014 |

High-level summary of national authorities' action plans – Brazil

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|--|--|-----------------------------|-------------------------------------|
| | parameters are used in a proprietary model for measuring total credit risk of the portfolio. | | | | | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • Brazilian laws and regulations do not require banks to rely on CRA ratings for prudential or operational purposes. | <ul style="list-style-type: none"> • Use simplified standardised approach in which risk weights are established by the regulator. • Awaiting BCBS TFSA work. | | <ul style="list-style-type: none"> • Banks are required to assign a rating to every credit exposure at the moment of concession for the purpose of loan loss provisioning. Information on this assignment is provided to the credit bureau that is managed by the BCB, allowing the supervisory authority to compare ratings on similar exposures and to establish a benchmark. Deviations from this benchmark are subject to regular supervisory treatment and may conduce to a request for improvement. | BCB | 1 year after BCBS work is finalised |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • No references in laws or regulations for CCPs. • CCPs use internal models to assess risk and margin requirements; the use of CRA ratings is not mandatory. | <ul style="list-style-type: none"> • Not applicable. (Almost all collateral delivered is government securities and equities. Almost all resources are invested in government securities.) | | <ul style="list-style-type: none"> • BCB assesses CCPs against the CPSS-IOSCO PFMI, which sets out requirements for CCPs to undertake in-depth in-house risk assessment and risk management. | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Specific action on current references in regulation is included. | | <ul style="list-style-type: none"> • Support through promotion of detailed reporting of ERM/ORSA practices. | <ul style="list-style-type: none"> • Increase and improve analysis of ERM and ORSA by market participants. | Susep (insurance regulator) | No changes are expected before 2015 |

High-level summary of national authorities' action plans – Brazil

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|---|---|--|--|--|
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • Legislation establishes that the investment of resources from pension funds in certain types of assets must take into consideration the updated opinion issued by local CRAs. • Proposed amendments to the legislation will not remove the use of CRA ratings but it will not be considered mandatory anymore. | <ul style="list-style-type: none"> • The new legislation will state that the credit analysis must be approved by a governance body with appropriate jurisdiction over the investment and risk areas. | | | PREVIC (pension funds regulator) and SPPS (government office for pension policy) | No changes are expected before 2015 |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Action plans intend to remove references to CRA ratings in investment funds management legislation for private bonds, fixed income funds. | <ul style="list-style-type: none"> • Plan to require investment management firms to develop own investment risk area, with an independent director responsible for the area. | <ul style="list-style-type: none"> • Plan to include risk management and the independent director in the annual report by the investment manager to be provided to the supervisor. | <ul style="list-style-type: none"> • Analysis of the risk management process put in place by market participants. | CVM (securities market regulator) | Analysis of risk management processes planned for 2014 |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> • An approach and its timeframe will only be set after COREMEC (a high level committee that gathers the regulators of the Brazilian financial market) resumes its activities in the beginning of 2014. | <ul style="list-style-type: none"> • CVM has a permanent working group that studies real estate debt securities and constantly communicates with market participants in order to assess if the credit analysis is actually done. | | | CVM | No changes are expected before 2015 |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Not applicable as there are no references to CRA ratings. | | | | | |

High-level summary of national authorities' action plans – Canada

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|---|---|--|--------------------------------|-------------------------------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • Second highest CRA rating used to determine eligibility and limits in reserves management, alongside market-based indicators e.g. CDS spreads and bond yields. • Second highest CRA rating used to set collateral eligibility for the Standing Liquidity Facility (SLF), though Bank of Canada (BoC) retains discretion to override. • CRA ratings not used in market operations. | <ul style="list-style-type: none"> • The new unit (see next column) developed a sovereign rating methodology for reserves management. Internal ratings will replace CRA rating in FX reserves management. Methodologies for other eligible asset classes are being developed. • The BoC is currently exploring complements and alternatives to CRA ratings for use in the SLF policy. | <ul style="list-style-type: none"> • In 2013, BoC formed a new unit to conduct credit risk assessments and developed and approved a governance structure for internal credit assessment. • In 2010, the BoC revised its SLF policy to require a minimum of two credit ratings and the use of the second highest rating in determining collateral eligibility and the applicable haircut, potentially reducing cliff-edge effects. • For the SLF, BoC is exploring complements and alternatives to CRA ratings, such as the non-mechanistic use of CRA ratings as inputs into internal assessments, and alternative risk proxies. | | BoC | End 2014 |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • There are no references to CRA ratings in banking laws and regulations. The banking guidelines are generally consistent with BCBS standards and expected to follow any revisions. • Eleven banks in Canada have approval to use IRB approaches for credit risk. Approximately 95% of total banking system exposures are being measured using IRB approaches. | | <ul style="list-style-type: none"> • In addition to supervisory reviews as noted, banks and trust and loan companies are required to apply the ICAAP guideline which includes an internal assessment of risk, including credit, in assessing their capital adequacy. | <ul style="list-style-type: none"> • The Office of the Superintendent of Financial Institutions (OSFI) conducts file reviews (on a sample basis) at selected regulated banks and insurance companies. This review includes an assessment of the credit risk analysis that was completed and the suitability of the internal rating that was assigned. | Department of Finance and OSFI | 1 year after BCBS work is finalised |

High-level summary of national authorities' action plans – Canada

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|--|---|---|-------------------|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> No references to CRA ratings in laws and regulations on CCPs. Under CDS Participant Rule 5.3.1, collateral requirements are consistent with BoC's SLF eligibility criteria, which rely on CRA ratings. | <ul style="list-style-type: none"> CDS Participant Rule 5.3.1 will be reviewed and updated, pending change to the BoC's SLF collateral policy. | <ul style="list-style-type: none"> CCPs have self-assessed against CPSS-IOSCO PFMI and will take actions in 2014 to address procyclicality. | <ul style="list-style-type: none"> Authorities are assessing reliance on CRA ratings in the investment policy as part of the CPSS-IOSCO PFMI assessment. Supervisors have no role in reviewing bilateral margin agreements. | BoC | End 2014 |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> No references exist in laws or regulations, but references exist in the Minimum Continuing Capital and Surplus Requirements guideline. | <ul style="list-style-type: none"> Development of a model-based solvency framework to motivate alternative ways of measuring risk. | <ul style="list-style-type: none"> ORSA/ERM-related activity as part of risk management approach. | | | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> A plan administrator may consider using credit ratings as part of their due diligence review. | | <ul style="list-style-type: none"> Pension plan administrators are required to invest the assets of a pension fund in a manner that a reasonable and prudent person would apply in respect of a portfolio of investments of a pension fund. | <ul style="list-style-type: none"> Pension plan regulators have the authority to conduct compliance reviews but there are no specific supervisory processes and procedures to assess the adequacy of market participants' own credit assessment processes. | OSFI / Provincial Pension Regulators | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> There are very few references in the federal framework to CRA ratings, and those that remain have been reviewed and it has been determined that they serve an appropriate policy purpose. | <ul style="list-style-type: none"> Canadian Standards Association (CSA) members have not developed any alternative standards of assessment for the purpose of replacing references to CRA ratings at this time. CSA members will continue to monitor international developments regarding appropriate alternative proxies to credit ratings. | <ul style="list-style-type: none"> The Ontario Securities Commission (OSC) already has the authority to conduct compliance examinations to inspect the business and conduct of registrants to determine if registrants are complying with securities legislation. | <ul style="list-style-type: none"> Internal limits and investment policies are routinely reviewed as part of the compliance examination process for all portfolio managers. No additional actions considered at this stage. | CSA | Not applicable |

High-level summary of national authorities' action plans – Canada

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|--|---|--|--|---|-------------------------------|-----------------|
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Certain references to CRA ratings remain in the framework for Canadian securities issuances, as those are viewed as serving an appropriate policy purpose. | <ul style="list-style-type: none"> • At this time, the CSA has not developed any supervisory processes and procedures to review credit assessment processes of reporting issuers. | <ul style="list-style-type: none"> • None | <ul style="list-style-type: none"> • At this time, the CSA has not developed any supervisory processes and procedures to review credit assessment processes of reporting issuers. | CSA | Not applicable |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Remaining references to CRA ratings viewed as serving an appropriate policy purpose (references in exemptions from dealer registration requirements in respect of trades in certain rated debt security and in setting the supervisory minimum capital requirements). | <ul style="list-style-type: none"> • Not developed any alternative standards of assessment. • Monitoring international developments. | <ul style="list-style-type: none"> • Requirement to establish, maintain and apply policies and procedures establishing a system of controls and supervision sufficient to manage the risks associated with their business in accordance with prudent business practice. • Assessment of suitability for a client before making a recommendation or accepting instructions from the client and “know your product” obligations. | <ul style="list-style-type: none"> • Compliance reviews to assess registrants’ compliance with securities laws and to test their systems of internal controls and processes. • Review of due diligence process performed by registrants on the securities they are researching for investment decision making purposes. | CSA | Not applicable |

High-level summary of national authorities' action plans – China

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|---|---|---------------------------|-----------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • No reliance in monetary policy operations. • For central bank lending to commercial banks, CRA ratings are one important reference in determining eligible collateral. | | <ul style="list-style-type: none"> • People’s Bank of China (PBoC) is considering establishing internal credit assessment, but this is still being developed. | | PBoC | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • The extent of reliance in market practice is weak. • China credit rating industry is still in early stage of development. • The main focus of efforts to reduce reliance is in the regulatory capital framework. • China Banking Regulatory Commission (CBRC) has provided both standardised and IRB approaches for banks to make their own credit risk assessment and measurement. CBRC will continue to initiate regulatory amendments to the Capital Rules of Commercial Banks to reflect new proposals issued by the BCBS. Major banks in China, especially large banks have been approved by the CBRC to implement the IRB approach subject to supervisory approval. | <ul style="list-style-type: none"> • A commercial bank’s internal rating outputs and estimated risk parameters shall play an important role in the establishment of risk management policies and credit approval as well as capital allocation and governance, etc. | <ul style="list-style-type: none"> • CBRC issued the Capital Rules of Commercial Banks, implemented on Jan. 1 2013, and required the internal rating system of a commercial bank to be effective in credit risk identification, categorisation, ranking by materiality and quantification. | Pursuant to the CBRC <i>Capital Rules</i> : <ul style="list-style-type: none"> • Banks are required to establish governance structure to ensure the objectivity and reliability of internal ratings. • Banks must have processes and procedures in place to ensure the independence and fairness of internal ratings. • Banks should publicly disclose qualitative and quantitative information on their IRB approach and implementation. • Banks are required to conduct due diligence when using external credit ratings. | CBRC | Not specified |

High-level summary of national authorities' action plans – China

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|--|--|--|---------------------------|-----------------|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> No references to CRA ratings in laws and regulations relating to collateral policies. | <ul style="list-style-type: none"> China Securities Depository & Clearing Corporation (CSDCC) is in the process of developing internal credit risk assessment framework. Shanghai Clearing House (SHCH) has developed its own internal credit ratings system that uses market data, alongside CRA ratings. | | <ul style="list-style-type: none"> SHCH has considered CPSS-IOSCO PFMI when developing margin rules. CSDCC and SHCH are not permitted to undertake investment activity so not applicable. | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> Some of the remaining reliance in regulations is being replaced by the new solvency regime (CROSS), which is planned to be completed by 2016. Most of the remaining references are not considered mechanistic. | <ul style="list-style-type: none"> The regulator is working on identifying and developing acceptable alternatives to replace references to CRA ratings in regulations. | <ul style="list-style-type: none"> Insurance companies are required to strengthen the capacity building of internal credit assessment and reduce reliance on external credit ratings. | | | |
| Pension sector <i>Principle III.3</i> | | | | | | |

High-level summary of national authorities' action plans – China

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|---|--|---------------------------|--|
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> In view of the recent emergence of this sector, China Securities Regulatory Commission (CSRC) has not yet taken actions to reduce reliance of CRA ratings in laws and regulations as well as regards market reliance. | | | | CSRC | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> PBoC: Not applicable. There are no mandatory CRA ratings requirements in laws and regulations for bond issuance. CSRC: Under the amendments of the Pilot Administrative Measures for Corporate Bonds Issuance, CSRC proposed to remove the requirement of “having obtained good CRA ratings” before public issuance of corporate bonds. | <ul style="list-style-type: none"> PBoC: encourages market participants to have internal control system in place necessary for the implementation of due diligence. CSRC: In process. | <ul style="list-style-type: none"> PBoC will encourage market participants to use credit report of securities issuers from credit service agency in their own credit assessment process and access more credit information to reduce reliance on CRA ratings. CSRC: In process. | | CSRC PBoC | CSRC will remove the relevant requirement by the end of 2014 |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> Not applicable. The use of CRA ratings within securities firms are not considered mechanistic. | | | | CSRC | |

High-level summary of national authorities' action plans – European Union

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|---|---|--|-------------------------------|---|
| <p>Central bank operations</p> <p><i>Principle III.1</i></p> | | <ul style="list-style-type: none"> • European Credit Assessment Framework (ECAAF) defines the procedures, rules and techniques for entities that can be used to provide credit risk assessments, which may be Eurosystem National Central Banks (NCBs) and CRAs. • Eurosystem has amended eligibility criteria for ABS by introducing loan-level data requirements. • A number of Eurosystem NCBs are building in-house credit assessment systems for non-financial corporations. • Eurosystem is enhancing the due diligence it conducts on CRAs and other credit assessment systems in the context of ECAF. | <ul style="list-style-type: none"> • ABS loan-level data will increase transparency. • In-house Credit Assessment Systems (ICAS) under development, as well as those already existing, mean that the credit quality of non-financial corporations can be assessed internally. | | ECB / Eurosystem NCBs | ICAS work to be completed in the next 2 years |

High-level summary of national authorities' action plans – European Union

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|--|--|-------------------------------|--------------------|
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • CRA III requires the EC (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. • In addition the EBA will produce a bi-annual report on the references to ratings in national legislation and implementation of the FSB Principles to reduce reliance on credit ratings. | <ul style="list-style-type: none"> • The Commission to report on alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments, and shall cover alternatives for the banking sector. | | <ul style="list-style-type: none"> • The Commission shall by April 2015, and after consulting EBA, submit a report as to the functioning of the benchmarking of internal models including the scope of the model. | EC | Report end 2015 |

High-level summary of national authorities' action plans – European Union

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|---|---|---|---|--|--------------------------------|--|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> European Market Infrastructure Regulations (EMIR), adopted in July 2012, do not contain any references to CRA ratings. CRA III requires the EC, with help from ESMA, to submit a report to the European Parliament and the EC by end 2015 on plans to delete mechanistic references to CRA ratings in regulations with a view to deleting all references in Union law by 1 January 2020. | <ul style="list-style-type: none"> The Commission shall report on alternative tools to enable investors to make their own credit risk assessment, covering also CCPs. | | <ul style="list-style-type: none"> Under EMIR, CCPs had to apply for re-authorisation by 15.09.2013 and comply with high standards on credit and liquidity risk management and investment policy, in line with CPSS-IOSCO PFMI. If granted, CCPs would be re-authorised by mid-2014. Under EMIR, when assessing assets for eligibility as collateral or for investment, 'the CCP shall employ a defined and objective methodology that shall not rely on external opinions.' Private sector margin agreements must comply with EMIR. EMIR has also seen supervision and oversight enhanced by the establishment of supervisory colleges. | EC | Report by end 2015 |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> Solvency II will not contain references in law or regulation. (Note: plan to include CRA ratings as part of capital requirement formula is subject to negotiation of Omnibus II text.) | <ul style="list-style-type: none"> Intended guidelines on risk-based approach. The Commission shall report on alternative tools to enable investors to make their own credit risk assessment, covering also insurance sector. | <ul style="list-style-type: none"> Intended use of ORSA and internal models for internal risk assessment. | | EC EIOPA | Report by end 2015 |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> The CRA III package requires occupational funds to reduce reliance on external credit ratings. | <ul style="list-style-type: none"> The Commission shall report on alternative tools to enable investors to make their own credit risk assessment, covering also pension funds. | <ul style="list-style-type: none"> The CRA III package strengthens the requirement for own credit risk assessments, not allowing the sole and mechanistic reliance on external credit ratings. | <ul style="list-style-type: none"> The CRA III package requires competent authorities to monitor the adequacy of own credit risk assessment processes of the supervised entities but taking into account the nature, scale and complexity of their activities. | Competent national authorities | 18 months after entry into force on 21 June 2013 |

High-level summary of national authorities' action plans – European Union

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|--|---|---|--|
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> The relevant legislation in the investment fund management sector does not contain references to external credit ratings A revision of guidelines and draft regulatory technical standards has been undertaken by the European Supervisory Authorities (ESAs) to remove where appropriate references which have the potential to trigger sole and mechanistic reliance on CRA ratings. | <ul style="list-style-type: none"> The CRA III package strengthens the requirement for own credit risk assessments and not solely and mechanistically rely on external credit ratings. | <ul style="list-style-type: none"> The CRA III package contains an amendment 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. | <ul style="list-style-type: none"> The CRA III Regulation (Article 5a) requires 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). | EC and competent national authorities | In force since June 2013, transposition by EU jurisdictions 18 months after entry into force |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> No specific references in the Prospectus Directive. The Prospectus requires issuers to disclose in the prospectus a credit rating when available and to complement the prospectus if the credit rating is changed during the offer period, following an assessment on a case by case basis by the national competent authority responsible for the approval of the prospectus. This is not considered as sole and mechanistic reliance on CRA ratings. CRA III imposes that all references to CRA ratings in Union Law for regulatory purposes be removed by January 2020, subject to the implementation of appropriate alternatives to credit risk assessment. Report to be submitted by the EC, | <ul style="list-style-type: none"> The EC report shall also include information on alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments. | | | EC, based on technical advice from ESMA | Report end 2015 |

High-level summary of national authorities' action plans – European Union

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|---|---|--|---|-----------------|
| | based on technical advice from ESMA, to the European Parliament and to the Council on the steps taken in regard to the deletion of references triggering sole and mechanistic reliance. | | | | | |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • MiFID Implementing Directive contains references to credit ratings in article 18(1). • MIFID Directive is currently under revision and does not include any reference to credit ratings: new implementing legislation will not include references to credit ratings. • CRA III Regulation imposes that all references to CRA ratings in Union Law for regulatory purposes be removed by January 2020, subject to the implementation of appropriate alternatives to credit risk assessment. • Report to be submitted by the Commission, based on technical advice from ESMA, to the European Parliament and to the Council 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. | <ul style="list-style-type: none"> • The EC report shall also include information on alternative tools to enable investors to make their own credit risk assessment of issuers and of financial instruments. | <ul style="list-style-type: none"> • Financial institutions required to strengthen their own credit risk assessment. | <ul style="list-style-type: none"> • Requirement in CRA III for national sectoral competent authorities to monitor the adequacy of their credit risk assessment processes of financial institutions, taking into account the nature, scale and complexity of their activities. • Requirement for competent authorities to assess the use of contractual references to credit ratings and to mitigate the impact of such references, with a view to reducing sole and mechanistic reliance on credit ratings. | EC, based on technical advice from ESMA | Report end 2015 |

High-level summary of national authorities' action plans – France

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|---|--|---------------------------|-----------------|
| <p>Central bank operations</p> <p><i>Principle III.1</i></p> | <ul style="list-style-type: none"> • See ECB for monetary policy and lending operations. • No reliance for reserves management. | <ul style="list-style-type: none"> • Banque de France (BdF) has its own internal rating system to assess over 260k non-financial companies, functioning as a Eurosystem ICAS. | <p>BdF ICAS is currently used to assess the eligibility of 40% of credit claims used as collateral under monetary policy operations (highest ratio for the Eurosystem).</p> | | BdF | |
| <p>Banking</p> <p><i>Principle III.2</i></p> | <ul style="list-style-type: none"> • See EU action plan. French laws and regulations referring to CRA ratings are in almost all cases transposed from European directives. | <ul style="list-style-type: none"> • The French Autorité de Contrôle Prudentiel et de Résolution (ACPR) is participating in the ongoing policy work impacting CRA influence at both international (BCBS) and European (EBA) levels, this includes participating in the BCBS TSFA, BCBS Ratings and Securitisations Workstream and in the work of the EBA Network on ECAI. | <ul style="list-style-type: none"> • The banking regulatory capital 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 addition, the ACPR is paying close attention to IRB banks to limit the partial use of the standardised approach and to ensure that roll out plans of the IRB approach are implemented. • In France, there is a trend towards an increase in the portion of portfolios covered by the IRB approaches: at the end of 2012, 61% of French credit institutions (in terms of number of institutions), including most large institutions, had been authorised to use the IRB approach. | <ul style="list-style-type: none"> • The ACPR, in line with the EU regulatory framework and national provisions, requests that banks, irrespective of the approach used for determining capital charges, have sound risk management practices, which implies, for credit risk, inter alia, a good understanding of the factors influencing the creditworthiness of counterparties. The existence of adequate procedures in this regard is subject to the on-going review and evaluation of the ACPR. • On-site inspections and off-site examinations including regular supervisory reporting are in place in order to ensure the quality and reliability of the IRB method implemented both on an initial basis (initial approval) and on-going basis (including necessary updates). | ACPR | |

High-level summary of national authorities' action plans – France

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|---|---|---------------------------|-----------------|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • See EU action plan. • In French CCP risk models, CRA ratings are one input into clearing member credit assessments and collateral eligibility and haircuts but the CCP does not rely solely on this input in its internal rating system. | | | <ul style="list-style-type: none"> • CCPs' credit assessment processes are reviewed against the CPSS-IOSCO PFMI by French regulators, who must authorise any material change to the CCP's risk model. • Supervisors do not have the power to require changes to private sector margin agreements. | ACPR, AMF, and BdF | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Regulation of investment in securitised funds changed in 2013 to encourage alternative ratings. See EU action plan. | <ul style="list-style-type: none"> • Actions incorporated into EU efforts. | | | ACPR | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • The pension fund sector in France is small and is regulated in the same way as insurance companies. | | | | ACPR | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • See EU action plan. • Currently, the relevant legislation in the investment fund management sector does not contain references to or prescribe use of external credit ratings. | <ul style="list-style-type: none"> • Completion of the transposition into French law of EU law regarding the use of credit ratings in asset management (namely directive 2013/14/UE of 21 May 2013) provides that asset management companies shall not rely solely or mechanically on | <ul style="list-style-type: none"> • Authorisation of an asset management company requires, among others, the existence of specific due diligence and internal procedures to assess the credit risk of portfolio assets. • Principle not to rely solely or mechanically on CRA ratings to assess the creditworthiness of portfolio assets in French law is wider in scope than what was actually required by the Directive as it includes asset management companies managing | <ul style="list-style-type: none"> • From 2014, as part of ongoing supervision, the AMF intends to focus on how internal credit rating systems have been designed and on the use of CRA ratings in investment policies and decisions. • The AMF to draw also from the work of the IOSCO's Committee on Investment Management (C5), aimed at identifying a set of best practices to reduce investment managers' and end-investors' reliance on CRA ratings. • As part of this workstream, which | AMF | From 2014 |

High-level summary of national authorities' action plans – France

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
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| | | credit ratings. | discretionary mandates, in addition to those managing AIFs and UCITS. | the AMF is co-chairing, a consultation paper is to be launched by mid-2014. | | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> As far as securities issuance on regulated markets is concerned, there is no specific requirement for credit ratings in French laws and regulations. The only rule applicable derives directly from EU regulation 809/2004 implementing the Prospectus Directive, according to which the prospectus must mention the rating, if such rating exists. | <ul style="list-style-type: none"> In view to reduce the role of credit ratings in disclosures by issuers of securities, the AMF is encouraging alternative tools by reinforcing transparency on securities so that investors have access to information they need to conduct relevant due diligence. | <ul style="list-style-type: none"> As a member of ESMA, it is taking part in rulemaking and implementation of permanent detailed reporting for securitisation instruments as imposed by article 8b of CRA III regulation (and as such directly applicable in France). | <ul style="list-style-type: none"> Once the rule is implemented National competent authorities will then supervise that this detailed reporting is filed. | AMF (for securities issuance on a regulated market) | <ul style="list-style-type: none"> See EU action plan. After submission of draft technical standards by mid-2014 and enactment by the EC. |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> See EU action plan. Article 18(1) of MIFID Implementing Directive contains references to CRA ratings, which are transposed into Article 2 of the French Order of 2 July 2007 on securities firms. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> See EU action plan. | ACPR | See EU action plan |

High-level summary of national authorities' action plans – Germany

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|--|--|---------------------------|-----------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • See ECB for monetary policy and lending operations. • CRA ratings are one input into investment operations, although most investments are made on the basis of strategic decisions. | <ul style="list-style-type: none"> • Bundesbank operates its own internal credit assessment system for assessing non-financial corporations, accepted as an ICAS within the ECAF. Furthermore, efforts are underway to enhance the monitoring of counterparties and issuers. | | | | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • See EU action plan. | <ul style="list-style-type: none"> • Alternatives to CRA ratings are described within the “Minimum requirements on risk management” (MaRisk) circular, institutions have to use other information available (e.g. business reports, prospectuses, information circulating in media, own or external analysis, credit spreads, analysis of the methods used by CRAs forming their judgement etc.) to validate their own credit judgement. | <ul style="list-style-type: none"> • MaRisk covers inter alia requirements for appropriate structural and operational arrangements in the credit business and for appropriate processes for identifying, assessing, treating, monitoring and communicating credit risk. | <ul style="list-style-type: none"> • See MaRisk, Chapter BTO1. | BaFin/ Bundesbank | |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • See EU action plan. • CRA ratings are only one parameter in the CCP’s risk management. | | | | | |

High-level summary of national authorities' action plans – Germany

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|--|--|--|---|-----------------|
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> Plan changes to circular/guidance wording in 2014. See EU action plan. | <ul style="list-style-type: none"> Review of internal supervisory guidelines on investments to be carried out during 2014. See EU action plan. | | | | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> Following the Directive 2003/41/EC on Institutions for Occupational Retirement Provision regarding Institutions for Occupational Retirement Provision, references in law have been removed but do not prohibit their use. An explicit prohibition of mechanistic reliance on ratings will be introduced within the next months. | | | <ul style="list-style-type: none"> The supervisor will be required to monitor the adequacy of the credit assessment processes of management companies and assess the use of references to credit ratings taking into account the nature, scale and complexity of the activities. The supervisor reviews and approves the fund rules. | BaFin/ State supervisory authorities | 2014 |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> Compliance with EU legislation. Guidelines and technical standards of the ESAs have been revised to reduce references which trigger sole and mechanistic reliance on CRA ratings. | <ul style="list-style-type: none"> The German regulatory framework contains a general rule regarding due diligence and risk assessment applying to all collective investment scheme (CIS) types and all management companies. | <ul style="list-style-type: none"> In case a CIS management company has introduced references/eligibility criteria regarding CRA ratings into the fund rules, BaFin reviews these fund rules and among other things checks the adequacy of these criteria. Furthermore the custodian bank shall ensure that the investment limits applicable to the relevant fund according to law and the fund rules are complied with. | <ul style="list-style-type: none"> In addition to the general framework, BaFin has issued a circular on minimum requirements for risk management of asset management companies. This circular also requires internal risk assessment and monitoring of credit risk. The company has to implement limits in line with the assessment and specific to the issuers and counterparties. In this internal assessment, CRA ratings can only be one factor among others. | BaFin | As of 2014 |

High-level summary of national authorities' action plans – Germany

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|--|---|--|--|---|---------------------------|--|
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> No references to credit ratings in the national Securities Prospectus Act. The content and format of prospectuses are set out in detail in EU Prospectus Regulation. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> There is no supervisory process and procedure to assess the adequacy of market participants own credit assessment processes. | BaFin | See EU action plan |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> See EU action plan. No references to CRA ratings in purely national German laws and regulations. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> Circular by BaFin (2013) expressly interdicting references to CRA ratings in product information sheets to retail clients. | <ul style="list-style-type: none"> Stock-taking exercise of existing market practices, methodologies and processes for alternative credit risk assessment, in order to identify “good” and “best practices” and incentives to market participants to develop/make use of alternative credit risk assessment methods, and eventually issue additional supervisory guidance. Workshops with industry representatives. | BaFin | <ul style="list-style-type: none"> Stocktaking exercise and workshops in Q4:2013 / Q1:2014. Publication of ‘good’ and ‘best practices’ for alternative credit risk assessments in Q2:2014, to be eventually integrated into BaFin guidance in Q2:2014. |

High-level summary of national authorities' action plans – Hong Kong

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|--|--|---------------------------|---|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • Hong Kong Monetary Authority (HKMA) uses in-house credit assessment methodologies to set eligibility and limits for reserves management. • For repos and securities lending, CRA ratings are one input into determining eligibility and haircuts. • CRA ratings are not used in routine monetary policy operations. | <ul style="list-style-type: none"> • In early 2013, HKMA strengthened its sovereign assessment framework to incorporate CRA ratings, alongside market-based probabilities of default and macroeconomic and financial data. • In November 2013, HKMA expanded this framework to assessing financial institutions' credit risk. • HKMA plans to assess feasibility of extending this methodology to corporates. | | | | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • Banks do not tend to place particularly strong reliance on CRA ratings in their credit risk assessment processes. • The references to CRA ratings in laws and regulations are all related to the regulatory capital and liquidity frameworks. • 26 authorised institutions (AIs) are using the standardised approach (this does not include AIs using the IRB approach that have exposures exempted from the IRB approach and for which the risk-weights are determined by using the | <ul style="list-style-type: none"> • Waiting for BCBS TFSA work. | <ul style="list-style-type: none"> • Supervisory guidelines are in place encouraging / requiring banks to have their own internal risk management capabilities and not to rely unduly on the credit assessment of, and credit ratings assigned by, external credit rating agencies. | <ul style="list-style-type: none"> • Disclosure of information on credit risk assessment processes is required in banking rules, covering the policies, procedures and controls banks use for identifying, measuring, monitoring, and controlling their principal risks (including credit risk). • The adequacy of banks' own credit assessment process is covered in the onsite examinations and offsite reviews of banks' credit risk management. Following the issuance of any new international standards or the enhancement of existing standards to be adopted into the local regime, the HKMA will consider performing additional | HKMA | <ul style="list-style-type: none"> • Capital standards: 15-17 months after the BCBS finalises its work (unless the BCBS specifies a longer timeline). • Review of banks' internal credit assessment processes: Upon promulgation of the new |

High-level summary of national authorities' action plans – Hong Kong

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| | <p>standardised approach). Their aggregate RWAs for credit risk accounted for about 28% of the aggregate RWA for credit risk of all locally incorporated AIs (if the standardised RWA of the aforesaid IRB AIs are included, the percentage share will be about 33%).</p> <ul style="list-style-type: none"> • Out of the 21 locally incorporated licensed banks in Hong Kong, 11 (25% of total RWA) are using the standardised approach in calculating their RWA for credit risk. | | | <p>examinations or reviews on the credit risk assessment processes of banks to ensure their compliance with the new standards.</p> <ul style="list-style-type: none"> • IRB specialised team would also conduct additional reviews in its IRB examinations to ensure the IRB banks meet supervisory expectations on their internal credit assessment processes. | | <p>standards, the HKMA will conduct reviews or examinations, usually within 12 to 24 months depending on the complexity of the new standards, to assess whether banks are in compliance with the new standards.</p> |
| <p>CCPs</p> <p><i>Principles III.4a and III.5a</i></p> | <ul style="list-style-type: none"> • The use of CRA ratings is limited to being one of the CCP's admission criteria. There are no references in the collateral policies. | <ul style="list-style-type: none"> • CCPs are in the process of establishing their own in-house credit assessment processes for their investment activity. • In 2015, CCPs will review whether to supplement or replace use of CRA ratings in admission criteria. | | | <p>Securities & Futures Commission (SFC)</p> | |
| <p>Insurance/ Reinsurance</p> <p><i>Principle III.3</i></p> | <ul style="list-style-type: none"> • An active review has determined that references are minimal and not mechanistic. | <ul style="list-style-type: none"> • Guidance issued on risk management practices. Situation to be monitored and international standards assessed as they are developed. | <ul style="list-style-type: none"> • Encouragement for boards of directors to take responsibility for risk management practice. | | <p>Insurance Authority</p> | |

High-level summary of national authorities' action plans – Hong Kong

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|--|---|---|--|---|---|-----------------|
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • Mandatory provident funds must consider the statutory minimum standards based on CRA ratings, among other things, when investing. • In the absence of an alternative credit assessment framework for relevant securities at this stage, no change is proposed. A broader review of investment regulation, including reliance on CRA ratings, may be undertaken in the longer-term. | | | <ul style="list-style-type: none"> • Investment compliance monitoring is discussed with trustees and managers of the schemes / funds during the course of supervision. • Internal limits and investment policies of trustees / managers for compliance with legislative requirements are reviewed regularly as part of the supervisory process. • In the absence of an alternative credit assessment framework for relevant securities at this stage, no change is proposed. | Mandatory Provident Fund Schemes Authority (MPFA) | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • There is no requirement under the primary legislation or regulations mandating the use of CRA ratings in the authorisation of publicly offered CIS. • The only references to CRA ratings for publicly offered CIS in the regulations are in the Code on Unit Trusts and Mutual Funds (UT Code) but these references are purely disclosure based and they do not constitute reliance. | <ul style="list-style-type: none"> • The SFC will keep in view the outcome from IOSCO's relevant work in reducing reliance on CRA ratings. | <ul style="list-style-type: none"> • Investment processes are discussed with investment funds managers during the course of supervision. • In respect of reviewing the internal limits and investment policies, SFC assesses the firm's risk management practice, resources and management governance. | <ul style="list-style-type: none"> • The SFC will keep in view the outcome from IOSCO's relevant work in reducing reliance on CRA ratings. | SFC | |

High-level summary of national authorities' action plans – Hong Kong

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|--|--|---------------------------|-----------------|
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> • An issuer is allowed to issue non-collateralised structured products if it meets one of the four criteria set out in Rule 15A.13 (1) of the Hong Kong Stock Exchange Listing Rules. Having a credit rating which is one of the top three investment grades awarded by a credit rating agency recognised by the Hong Kong Stock Exchange is one of the criteria. • There are no requirements to disclose an issuer's credit rating in respect of public offerings of shares and debt securities. | | | | SFC | Not applicable |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Not applicable. • CRA ratings are only one of many factors to be considered. | <ul style="list-style-type: none"> • Not applicable. • SFC-licensed securities firms which lend to clients perform their own assessment on clients' creditworthiness. Many of their clients are individuals or corporations without CRA ratings. • Keeping in view the outcome from international standard setters' work (IOSCO and BCBS). | | <ul style="list-style-type: none"> • Regular review of internal credit assessment processes of SFC-licensed investment bank subsidiaries. • Discussion of lending practices with securities firms providing financing to clients in assessing the business conduct of the SFC-licensed firms. • Keeping in view the outcome from international standard setters' work (IOSCO and BCBS). | SFC | Not applicable |

High-level summary of national authorities' action plans – India

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|---|--|-------------------------------|---|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • No reliance in monetary policy operations. • No reliance in FX reserves management. • For reserves management, internal models are used to assess counterparty credit risks of which CRA ratings are just one parameter. | | | | Reserve Bank of India (RBI) | Not applicable |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • Reliance on external ratings limited to Basel II standardised approach. • All banks operate under the standardised approach of Basel II. • 14 major banks have applied for migration to the advance approaches, namely the IRB approach. | <ul style="list-style-type: none"> • Dependence will reduce once major banks migrate to the IRB approach for capital computation. • Further measures depend on the BCBS development of supplementary measures for risk classification. | <ul style="list-style-type: none"> • Requires banks to have their own credit assessment framework for lending and investment decision. • Await the BCBS guidance for promoting alternative measures for risk assessment; when work is finalised, the RBI will consider adopting the same for banks. | <ul style="list-style-type: none"> • Focus of the RBI's annual financial inspection of banks. • Adequate disclosure requirements already in place. | RBI | 18-24 months (2015-2016) before banks migrate to the IRB approach |

High-level summary of national authorities' action plans – India

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|--|--|--|---|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> In case of the Securities and Exchange Board of India (SEBI) regulated CCPs, only AAA sovereigns and AA and above corporates are eligible for collateral, but at present, bulk of collateral is cash and bank guarantees. Reliance on CRA ratings is minimal. The Clearing Corporate of India Limited (CCIL), the CCP under the regulation and supervision of RBI, accepts only cash and government securities denominated in Indian Rupee (e.g. sovereign exposure) as collateral. CCIL uses CRA ratings in setting margin requirement and investment policy. | <ul style="list-style-type: none"> Work is ongoing by CCIL to develop an internal credit assessment framework using a range of data, including CRA ratings. | | <ul style="list-style-type: none"> SEBI circular dated 04.09.2013 requires CCPs to comply with the CPSS-IOSCO PFMI. SEBI has prescribed a Value at Risk margining methodology which is updated five times per day, but is reviewing this policy as it may be procyclical. SEBI has no jurisdiction over private sector margin agreements. | SEBI – Clearing house of stock exchanges RBI - CCIL | CCIL’s internal assessment process for credit risk exposures which can be used alongside CRA ratings is expected to be in place by mid-2014 |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> Review of existing reliance in regulations has confirmed that none is mechanistic. | <ul style="list-style-type: none"> Regulations require alternative risk management practices. | <ul style="list-style-type: none"> Responsibility for ERM is clearly delegated to board and senior management of companies. | <ul style="list-style-type: none"> Verified during onsite inspections of insurance companies. | Insurance Regulatory and Development Authority (IRDA) | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> CRA ratings may be referred to as a supplementary input for risk assessment. | | <ul style="list-style-type: none"> Required to undertake their own due diligence for assessment of risks associated with the securities before investments. | <ul style="list-style-type: none"> Require disclosure and reporting of the approach adopted for investments and risk assessment. | Pension Fund Regulatory and Development Authority (PFRDA) | Not applicable |

High-level summary of national authorities' action plans – India

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|---|--|---|-------------------------------|---|
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> There are no references to credit ratings in regulations governing portfolio managers or alternative investment funds. In mutual fund regulations, the valuation is required to be done in good faith and in true and fair manner through appropriate valuation policies and procedures. | <ul style="list-style-type: none"> Investment managers may disclose their credit evaluation policy for the investments in debt securities. To value an unrated security, the fund manager is required to assign an internal credit rating, which will be used for valuation. | <ul style="list-style-type: none"> SEBI encourages mutual funds not to completely rely on rating agencies and have their own systems to check and balance CRA ratings used. | <ul style="list-style-type: none"> SEBI carries out inspection, of mutual funds, the trustees and asset management companies on periodic basis. While carrying out such inspection the risk management systems are also reviewed and reported in the inspection report. | SEBI | Implemented |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> Issue of capital and other regulations stipulate that credit ratings may be obtained from one or more credit rating agencies. Guidelines issued by the RBI for commercial paper (CP) and non-convertible debentures (NCDs) contain generic references to CRA ratings. It is mandatory for eligible entities to obtain rating from SEBI registered CRAs for issuance of short-term NCDs and CPs. However, the ratings are not the sole criteria employed. | <ul style="list-style-type: none"> In the absence of credible alternatives to external credit ratings, it may not be possible to fully remove all references to external credit ratings. Once a credible alternative methodology of credit risk measurement is developed, RBI would review the existing guidelines. | | <ul style="list-style-type: none"> The disclosure requirements as mandated in various SEBI regulations enable the investors to analyse the facts independently and to take a well informed decision with regard to their investment. SEBI regulations are only intended to serve as an additional input for the decision-making process of an investor and the investor is required to make his own independent and objective analysis before arriving at an investment decision. | SEBI/ RBI | SEBI is in process of amending the same in its Issue of Capital and Disclosure Requirements (ICDR) regulations in the next six months, in 2014. |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> Not applicable. | | | | | |

High-level summary of national authorities' action plans – Indonesia

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|--|---|---------------------------|-----------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • CRA ratings used as one input to determine eligibility and haircuts on corporate bonds as collateral in the short-term funding facility. • CRA ratings not used in monetary policy operations. • CRA ratings used as one input to reserves management decisions. | | | | | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • Reliance of banks on the use of external credit ratings is minimal, limited to Basel requirements. • All Indonesian banks apply Basel II standardised approach. Only 4% of banks' financial assets are rated by CRAs. • Indonesian banking authority requires banks to conduct their own credit assessments. | <ul style="list-style-type: none"> • Awaiting BCBS work. | | <ul style="list-style-type: none"> • The banking authority requires the board of the banks to oversee the bank's risk management framework including their credit risk assessment process and the banks to disclose information on their credit risk assessment processes and exposures. | Indonesian authorities | Not specified |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • No response provided. | | | | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • No response provided. | | | | | |

High-level summary of national authorities' action plans – Indonesia

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|--|--|-------------------------------|-----------------|
| Pension sector <i>Principle III.3</i> | | | | | | |
| Investment managers <i>Principle III.3</i> | | | | | | |
| Securities issuance <i>Principle III.3</i> | | | | | | |
| Broker dealers <i>Principle III.3</i> | | | | | | |

High-level summary of national authorities' action plans – Italy

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|--|--|---------------------------|-----------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • For monetary policy operations, see EU action plan. • For investment purposes, CRA ratings are one input into its internal credit assessment process. | <ul style="list-style-type: none"> • For bank loans, Bank of Italy (BoI) uses its ICAS-BI which uses balance sheet, central credit register and market information. • For reserves management, BoI is working on a broader approach based on several warnings indicators. | | | | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • See EU action plan. • Italian laws and regulations referring to CRA ratings are in almost all cases transposed from European directives. | <ul style="list-style-type: none"> • The BoI is involved in the international (BCBS) and European (EBA) working group that are reviewing the role of CRA ratings in the regulation. | <ul style="list-style-type: none"> • Nine major banking groups (including three Italian subsidiaries of cross-border groups) have been allowed to use IRB approaches to compute capital requirements for credit risk. • Some extensions of IRB models are scheduled for banks already in the IRB regime. At the same time, meetings with some banks still under the standardised approach have been already scheduled to evaluate the opportunity to start the validation process. | <ul style="list-style-type: none"> • For IRB banks the validation process requires banks to comply with a large set of requirements referring to the methodological framework, the organisational structure and IT resources. • BoI has issued some guidelines highlighting the importance of having robust data for developing PD and LGD models and further stressed the central role of the management in the development of internal models. • Further guidelines require performing internal risk assessments for risk management purposes or for computing capital requirements also when external ratings are used. • National regulation on banks' internal controls provides expressly that banks must equip themselves with internal methods that permit an assessment of the credit risk also in case of use of external ratings. These methods must not be mechanically based on the ratings assigned by ECAs. | BoI | |

High-level summary of national authorities' action plans – Italy

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|--|--|---------------------------|---|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • See EU action plan. • The CCP internal risk model is based not only on CRA ratings but also on other indicators. | | | | BoI and CONSOB | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Limited reliance has already been tackled. Additional check to be performed in the context of Solvency II directive transposition. See also EU action plan for future activity. | <ul style="list-style-type: none"> • IVASS is involved in the international (IAIS) and European (EIOPA) workstreams that are reviewing the role of CRA ratings in insurance regulation. | <ul style="list-style-type: none"> • In July 2013, IVASS, together with Bank of Italy, CONSOB and COVIP) adopted a public Communication addressed to all insurance undertakings operating in Italy, aimed at encouraging the use of alternative internal processes to assess credit merit and making clear supervisory expectations on due diligence. | <ul style="list-style-type: none"> • Actions will aim to enhance the knowledge of insurers' internal credit risk assessment practices. | IVASS | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • For occupational retirement schemes, no reference to CRAs ratings is in place in national law and regulations following EU regulation. • See EU action plan. | <ul style="list-style-type: none"> • There is no need to develop alternative standards of credit assessment, as current national laws and regulations have no references to replace. | <ul style="list-style-type: none"> • The supervisory authority issued a communication in 2012 to encourage pension fund administrators to consider CRAs ratings only as one of factors to consider in investment selection process. | <ul style="list-style-type: none"> • Strengthened monitoring of the credit risk assessment process. • When the investment policy of a pension fund mandates that a minimum CRA rating is required, it has to be further specified that CRA ratings are only one of the factors to consider in investment selection process. | COVIP | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Transposition of EU legislation in national law. • Transposition of EU CRA III regulation in the asset management sector (UCITS, AIFMD) in | <ul style="list-style-type: none"> • In line with CRA III regulation, collective portfolio managers (CPM) shall not solely or mechanically rely on CRA ratings. • CPMs are required to | <ul style="list-style-type: none"> • Portfolio managers are required to set up a permanent risk management function. • Regular monitoring of CPMs through examinations and | <ul style="list-style-type: none"> • In addition to adherence to the new rules of the CRA III regulation in the EU, CONSOB, BoI, IVASS and COVIP issued parallel communications aimed at reducing over-reliance on credit ratings in the investment choices of collective investment portfolio managers, insurance companies, and pension | CONSOB and BoI | <ul style="list-style-type: none"> • See EU action plan • Communication has been issued |

High-level summary of national authorities' action plans – Italy

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|--|---|---------------------------|--|
| | national legislation. | comply with specific due diligence requirements for selection and monitoring of investments. | inspections to check compliance. <ul style="list-style-type: none"> Supervisors assess the adequacy of risk assessment processes and due diligence requirements. | funds. | | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> CONSOB is assessing whether references to external ratings (in law for securitisation of credits) have the potential to trigger sole or mechanistic reliance on such credit ratings and should, therefore, be removed or replaced. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> BoI regularly assesses the effective observance of obligations provided for in prudential regulation by banks investing in securitisation. | CONSOB and BoI | <ul style="list-style-type: none"> See EU action plan. Assessment by BoI already at present. |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> See EU action plan: the Italian legislation will be amended accordingly. | <ul style="list-style-type: none"> See EU action plan. CRA III requires investment firms to make their own credit assessment. Obligation to act in the best interest of clients and the integrity of the market, implying that investment firms shall put in place internal procedures to make their own risk assessment and encourage investors to perform a due diligence exercise. | <ul style="list-style-type: none"> Obligation to act in the best interest of clients and integrity of the markets, implying that investment firms shall avoid entering into contracts where they solely or mechanistically rely on credit ratings and using them in contracts as the only parameter to assess the creditworthiness of investments or to decide whether to invest or divest. | <ul style="list-style-type: none"> See EU action plan Monitoring of compliance with the obligation to act with diligence in the interest of clients and the integrity of the market, in conjunction with the requirements of the CRA III regulation, through off-site examinations and on-site inspections. Powers of supervisory interventions and powers to impose administrative sanctions, if needed. Assessment of compliance with the prudential rules and the European framework, including provisions concerning the reduction of overreliance on credit rating agencies. | CONSOB and BoI | <ul style="list-style-type: none"> See EU action plan. Obligation to act in the best interest of clients and supervisory oversight are already at present. |

High-level summary of national authorities' action plans – Japan

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|---|---|---------------------------|-----------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> The Bank of Japan (BOJ) conducts its own internal assessments to judge the eligibility of assets such as corporate bonds, both for collateral and asset purchasing. CRA ratings are one aspect used to determine the eligibility of collateral for conventional fund supply operations and for purchasing assets for unconventional monetary easing. CRA ratings are one aspect in foreign currency asset eligibility. | <ul style="list-style-type: none"> The BOJ reviews its frameworks as necessary to ensure that the usage of CRA ratings in the eligibility criteria remains appropriate, giving due consideration to the FSB Principles. | <ul style="list-style-type: none"> The BOJ conducts its own internal assessments to judge the eligibility of assets such as corporate bonds, both for collateral and asset purchasing. | | BOJ | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> No mechanistic reliance on CRA ratings. References to CRA ratings remain only within the implementation of the standardised approach of the Basel regulation. | <ul style="list-style-type: none"> Japan FSA will participate in the discussion of the BCBS TFSA. Credit risk-specific guidelines have been introduced. | | <ul style="list-style-type: none"> Continue to closely monitor the appropriateness of each financial institution's risk management process and its operation in place, such as internal credit assessment process. | Japan FSA | |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> No mechanistic reliance on external CRA ratings. | | | <ul style="list-style-type: none"> Continue to appropriately monitor and supervise CCPs in accordance to the Guidelines for Supervision of the FMIs. | Japan FSA | |

High-level summary of national authorities' action plans – Japan

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|---|--|---|---------------------------|-----------------|
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> No mechanistic reliance on CRA ratings. References to CRA ratings remain only within the implementation of the standardised approach of the Basel regulation. Insurance companies in Japan are required to calculate their RWAs in a similar way as the Basel regulation. | <ul style="list-style-type: none"> Credit risk-specific guidelines have been introduced. | | <ul style="list-style-type: none"> Continue to closely monitor the appropriateness of each financial institution's risk management process and its operation in place, such as internal credit assessment process. | Japan FSA | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> Immediate actions required for the regulatory reforms were completed by 2011. | | | <ul style="list-style-type: none"> Continue to closely monitor the appropriateness of each financial institution's risk management process and its operation in place, such as internal credit assessment process. | Japan FSA | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> No mechanistic reliance on external CRA ratings. | <ul style="list-style-type: none"> Japan FSA will participate in the on-going discussion of IOSCO to identify good practices for reducing reliance on CRA ratings for investment managers. | | <ul style="list-style-type: none"> Continue to closely monitor the appropriateness of each financial institution's risk management process and its operation in place, such as internal credit assessment process. | Japan FSA | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> No mechanistic reliance on external CRA ratings. Immediate actions required for the regulatory reforms were completed by 2011. | | | <ul style="list-style-type: none"> Continue to closely monitor the appropriateness of each financial institution's risk management process and its operation in place, such as internal credit assessment process. | Japan FSA | |

High-level summary of national authorities' action plans – Japan

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|---|--|---|---------------------------|-----------------|
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • No mechanistic reliance on CRA ratings. • References to CRA ratings remain only within the implementation of the standardised approach of the Basel regulation. Financial Instruments Business Operators in Japan are required to calculate their RWAs in a similar way as the Basel regulations. | <ul style="list-style-type: none"> • Japan FSA will participate in the on-going discussion of IOSCO to identify good practice for reducing reliance on CRA ratings for broker dealers. | | <ul style="list-style-type: none"> • Continue to closely monitor the appropriateness of each financial institution's risk management process and its operation in place, such as internal credit assessment process. | Japan FSA | |

High-level summary of national authorities' action plans – Korea

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|---|--|-------------------------------|--|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • No reliance for open market operations (both eligible securities and counterparties). • No reliance for lending facilities. • For foreign asset management: minimum CRA rating required for eligible assets; positive discretion applied if asset falls below minimum CRA level; internal credit scoring used to set counterparty and issuer limits. | <ul style="list-style-type: none"> • Use credit-related market indicators (including CDS, EDF) as supplementary tools for CRA ratings. • Used expected shortfall, systemic risk index to manage tail risk and systemic risk. | <ul style="list-style-type: none"> • Reviewing the introduction of internal credit risk assessment system as a supplementary tool for credit risk management. • Introduced stress testing as part of risk managing the reserve portfolio. | | | No timeline provided |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • Out of 18 banks 7 (17.4% of RWAs) use standardised approach and 11 use the IRB approach. • Banks do not use CRA ratings for their credit assessment purposes. In case of banks using standardised approach, the ratings are used to measure RWAs only. | | | | Financial Supervisory Service | About one year after the change in the standard is agreed upon |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • Not applicable – no CCPs in Korea. | | | | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Relevant regulations have already been revised (2012). • No further action needed. | <ul style="list-style-type: none"> • Market monitoring plan – including penalties and corrective actions if market participants are seen to be over-relying. | <ul style="list-style-type: none"> • Promotion of use of internal models. | | | |

High-level summary of national authorities' action plans – Korea

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|--|--|-------------------------------|---------------------------------|
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • Legislation establishes that the investment is permitted only in investment grade bonds. | <ul style="list-style-type: none"> • No plans to remove references, mainly due to cost concerns for market participants. • Will closely monitor any movements in the international arena for developing appropriate alternative standards. | | | FSC | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • No plans to remove references, mainly due to cost concerns for market participants. | <ul style="list-style-type: none"> • No plans to develop alternative standards. • Will closely monitor the international arena for developing appropriate alternative standards. | | | FSC | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Require CRA ratings in securities declaration forms submitted to the authority when issuing unsecured corporate bonds, as a way to provide minimum level of investor protection. • Considering the nature of securities, taking careful steps in making decisions on whether to remove references to CRA ratings. | <ul style="list-style-type: none"> • Require market participants to have internal control systems and experts in place necessary for the implementation of due diligence. It is also required to disclose details on implementation of due diligence and its results. | | | FSC | Review in process – no timeline |

High-level summary of national authorities' action plans – Korea

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|---|--|--|-------------------------------|---------------------------------|
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Ratings used when calculating the risk of financial investment companies for prudential supervision and investor protection. • Prior to removing references: (i) need stronger investor protection rules; (ii) domestic credit ratings market to be fully established; (iii) more competent internal credit assessment processes to be developed. | <ul style="list-style-type: none"> • Review in process. • Further review when detailed international standards are set. | <ul style="list-style-type: none"> • Review in process. | <ul style="list-style-type: none"> • Review in process. | FSC | Review in process – no timeline |

High-level summary of national authorities' action plans – Mexico

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|---|--|--|---------------------------|--|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • No reliance in open market operations. • CRA ratings plus additional information from the banking supervisor and an internal assessment of market and credit risks determine eligible collateral and haircuts for standing facility. • For international reserves management: minimum CRA ratings plus other observable data (e.g. CDS) are used to determine eligible assets, issuer limits and counterparties; a credit risk model (that uses CRA ratings, CDS implied defaults and other market information) determines single-name exposure limits for time deposits. | <ul style="list-style-type: none"> • The Bank of Mexico (BoM) has taken some actions to complement CRA ratings with alternative measures of creditworthiness in addition to other relevant information; for example, sovereign CDS spreads, macroeconomic indicators, accounting information, financial ratios through balance sheet analysis, macroeconomic indicators. | <ul style="list-style-type: none"> • The BoM is trying to improve its credit risk analysis by undertaking balance sheet analysis, consulting with external market observers, and gathering other market intelligence. | | | No further action planned |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • CRA ratings are used only for the purpose of capital adequacy. The ratings are not used in other prudential policies such as liquidity policies. As such no measures to reduce such reliance are currently envisaged. • One bank has IRB approval for revolving loans (which accounts for 70.14% of total revolving loans in the banking system). | <ul style="list-style-type: none"> • The new methodology estimates the expected loss of the loans, which is based on quantitative factors such as credit records (credit reporting agency source) and borrower's financial information to determine the debtor's willingness to pay. CRA ratings are no longer the main factor to evaluate the credit risk of | | | CNBV | No further steps envisaged at the moment |

High-level summary of national authorities' action plans – Mexico

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|---|---|---------------------------|----------------------------|
| | <ul style="list-style-type: none"> The other banks have IRB approval for some segments of commercial loans (which accounts for 13% of total commercial loans in the banking system). | loans. | | | | |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> No references in laws or regulations. CCPs use CRA ratings to determine investment policy and criteria for accepting letters of credit. Margin requirements and risk assessments do not consider CRA ratings. | | <ul style="list-style-type: none"> CCPs self-assessed against CPSS-IOSCO PFMI in June 2013 and plan to undertake actions to address procyclicality in margining methodology by May 2014. | <ul style="list-style-type: none"> BoM will request the CCP consider conducting its own credit assessments for defining assessment policy and consider ceasing to accept letters of credit in order to reduce reliance on CRA ratings. | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> New law (2013) has already removed references. No further action needed. | <ul style="list-style-type: none"> Expected additional disclosure from new law to assist monitoring of industry. | | | | |
| Pension sector <i>Principle III.3</i> | | | | | | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> Existing legislation requires that investment companies obtain a rating that reflects credit risk of their securities and the quality of their management. The CNBV should also establish the frequency and the terms and conditions to disclose such ratings. | <ul style="list-style-type: none"> The Mutual Funds Bill includes the possibility to issue rules that exempt the investment funds to hire a rating agency. These rules apply to all investment funds in order to ensure standardisation on their risk assessments. | <ul style="list-style-type: none"> Supervisory efforts will review, based on the inspections calendar, the fulfilment of Mutual Funds Bill. | <ul style="list-style-type: none"> No further actions currently considered. | CNBV | New rules expected in 2015 |

High-level summary of national authorities' action plans – Mexico

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|--|--|-------------------------------|--|
| Securities issuance <i>Principle III.3</i> | | | | | CNBV | |
| Broker dealers <i>Principle III.3</i> | | | <ul style="list-style-type: none"> • Know Your Product Assessments (KYP) obligations: intermediaries are required to conduct an analysis taking into account a minimum range of factors, including the risk associated with the security. • Credit risk for rated securities to be determined on the basis of additional elements and not only on CRA ratings. • Further elements to be considered in the KYP for complex products. | <ul style="list-style-type: none"> • Supervision of compliance of requirements for KYP. | CNBV | No further steps envisaged at the moment |

High-level summary of national authorities' action plans – Netherlands

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|--|--|---------------------------|---------------------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> For monetary policy operations, see EU action plan. The DNB does not determine the creditworthiness of its counterparties. | <ul style="list-style-type: none"> No response. | <ul style="list-style-type: none"> No response. | | | No further action planned |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> The direct role of CRA ratings in determining RWAs of Dutch banks is relatively limited, and expected to decrease further in future. Within the context of the BCBS framework, banks can use the standardised or the IRB approach for calculating RWAs. All large- and medium-sized Dutch banks make use of internal models for the largest part of their total exposures. The use of internal models for calculating RWAs currently accounts for more than three quarters of the total exposures of the Dutch banking sector, although Dutch banks may use external ratings as a benchmark for their own internal analysis. | <ul style="list-style-type: none"> Await BCBS TFSA guidance. | | <ul style="list-style-type: none"> Before Dutch banks can make use of internal models, or in case these banks want to make significant modifications to these models, this needs to be validated and approved by the Dutch supervisory authority (DNB). | DNB | Not specified |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> See EU action plan. | | | | | |

High-level summary of national authorities' action plans – Netherlands

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|--|--|---------------------------|---|
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> All previous references withdrawn through legislative amendment. See EU action plan. | <ul style="list-style-type: none"> Actions incorporated into EU efforts. | | | | |
| Pension sector <i>Principle III.3</i> | | | | | | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> Transposition of EU Directives in the investment management sector reducing reliance on CRA ratings. | <ul style="list-style-type: none"> Transposition of requirements of EU Directives requiring investment managers not to solely or mechanistically rely on credit ratings. | <ul style="list-style-type: none"> Thematic supervision of financial institutions to increasing risk management and risk awareness. | <ul style="list-style-type: none"> The Authority for Financial Markets (AFM) is looking into use of CRA ratings including references in the mandate contracts of institutional investors. This will be matched with the stock-taking exercise of other European national competent authorities. This action is done to give an advice to the EU whether additional measures might be necessary. | AFM | <ul style="list-style-type: none"> See EU action plan. Stocktake in 2014. |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> See EU action plan. | DNB/AFM | See EU action plan |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> See EU action plan. Any remaining references do not imply sole and mechanistic use of external ratings, but just a first reference that needs to be supported by further analysis. | <ul style="list-style-type: none"> See EU action plan. Following the European route and supporting and contributing to the work in the EBA, EIOPA and ESMA working groups. | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> Judgment on the way risk governance within the financial institution is organised and the extent to which the institution relies on external risk assessments. | DNB/AFM | See EU action plan |

High-level summary of national authorities' action plans – Russia

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|---|--|---------------------------|----------------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> For refinancing operations, minimum CRA ratings used to determine eligible securities, organisations acting as guarantors of loans, and counterparties on uncollateralised loans. For reserves management: minimum CRA ratings plus an internal credit review determine the eligibility and limits for counterparties and instruments, as well as limits on issuers. | <ul style="list-style-type: none"> For reserves management, an internal comparative analysis of foreign counterparties and issuers includes financial statements, market assessment of credit quality, and qualitative assessment of the probability of external support. | <ul style="list-style-type: none"> A comprehensive long-term plan for development of internal assessment system for those organisations, regions and Russian municipalities acting as liable parties on eligible collateral. | | | No timeline provided |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> Under current banking regulation CRA ratings have a limited use, mainly, as a condition for not applying higher risk weights and applying lower provisions. Credit risk capital calculation is based on export credit agencies country risk scores according to the simplified standardised approach (all credit organisations, namely 919 as of 22 January 2014). | | <ul style="list-style-type: none"> Implementation of IRB approach is envisaged. | <ul style="list-style-type: none"> Plans to improve the complex analysis system of non-financial companies for prudential purposes. | Bank of Russia | 2013-2015 |

High-level summary of national authorities' action plans – Russia

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|--|--|--|---------------------------|-----------------|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • CRA ratings are used in defining the CCP's investment policy. • CRA ratings not used in collateral eligibility as only assets on the Bank of Russia's Lombard List are eligible as collateral. • Margin requirements do not rely on CRA ratings. | <ul style="list-style-type: none"> • The CCP sets a floor on margins to help to limit procyclicality. | | <ul style="list-style-type: none"> • CCPs comply with the majority of CPSS-IOSCO PFMI. | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Plans developed to reduce reliance for "non-bank" financial companies in 2013-14. | | | | | |
| Pension sector <i>Principle III.3</i> | | | | | | |
| Investment managers <i>Principle III.3</i> | | | | | Bank of Russia | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Developing proposals concerning reducing reliance on ratings in regulation. | | | | Bank of Russia | 2013-2015 |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Developing proposals concerning reducing reliance on ratings in regulation. | | | | Bank of Russia | 2013-2014 |

High-level summary of national authorities' action plans – Saudi Arabia

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|---|--|---------------------------|-----------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • No reliance for repo and funding operations. • No reliance for overnight lending facilities. • For foreign reserves management, collateral eligibility and counterparty limits are based on CRA ratings. | <ul style="list-style-type: none"> • No plans to implement alternative measures. | <ul style="list-style-type: none"> • No plans to develop internal credit risk assessment capabilities. | | | Not applicable |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • There are no references in laws. • Only references in regulations arise from BCBS standards. | <ul style="list-style-type: none"> • Awaiting BCBS initiatives. | <ul style="list-style-type: none"> • All banks are required to have their own loan classification and internal credit rating systems. • Banks expected to have IRB systems in place when size of portfolios justify. • Saudi Arabian Monetary Agency (SAMA) supervises the development of IRB systems in the banks in formal meetings. | <ul style="list-style-type: none"> • Supervisory meeting with banks to discuss banks' own systems for credit risk assessment. • Inspections of banks' systems and processes. | SAMA | Not specified |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • Not applicable. • No CCPs in Saudi Arabia. | | | | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Existing references updated as part of "regular review". | | | | | |
| Pension sector <i>Principle III.3</i> | | | | | | |

High-level summary of national authorities' action plans – Saudi Arabia

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|--|--|---------------------------|---|
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> No references to CRA ratings in laws and regulations pertaining to investment fund management. | | <ul style="list-style-type: none"> The Capital Market Authority (CMA) has in place different procedures to assess the adequacy of market participants' own credit assessment processes. | | CMA/ SAMA | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> There is no need for any steps to be taken as there are no references to CRA ratings in laws and regulations pertaining to securities issuance. | | | | CMA | |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> None. | <ul style="list-style-type: none"> Requirement to conduct an ICAAP in line with the BCBS recommendations. | <ul style="list-style-type: none"> Securities firms are expected to develop and use sound risk management techniques in monitoring credit assessments process. | <ul style="list-style-type: none"> Supervisory processes and procedures enhanced to include review and evaluation of a securities firm's own credit assessment submission, based on an ICAAP. | CMA | Prudential rules to be enforced in early 2014 |

High-level summary of national authorities' action plans – Singapore

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|---|---|---------------------------------------|--|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> Minimal reliance on CRA ratings in intraday and overnight liquidity provision; acceptable collateral is mainly Singapore government related securities. For reserves management: CRA ratings are only one input for assessing counterparty and issuer eligibility and limits. | <ul style="list-style-type: none"> Market-based indicators (CDS, equity prices) and balance sheet ratios are considered in conjunction with CRA ratings. Qualitative factors (parental and government support) are used to assess counterparty risk. | <ul style="list-style-type: none"> Strengthen internal credit assessment processes on an ongoing basis. | | Monetary Authority of Singapore (MAS) | Ongoing |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> MAS will take reference from BCBS' review of the Basel III standardised approaches to review references to CRA ratings in domestic risk-based capital requirements. 1 out of the 4 Singapore incorporated banking groups and all 34 Singapore-incorporated merchant banks use only the standardised approach for credit risk. | <ul style="list-style-type: none"> Singapore-incorporated banks and merchant banks are required to perform an appropriate level of due diligence prior to the use of any recognised CRA for regulatory capital purposes. Take guidance from international standard-setters. | <ul style="list-style-type: none"> Banks are required to perform an appropriate level of due diligence prior to the use of the ratings by a recognised CRA for regulatory capital purposes. They are also expected to assess whether the regulatory risk weight applied is appropriate for the risk of the exposure, and consider any higher degree of credit risk in their evaluation of overall capital adequacy. Dialogue with industry on enhancing credit risk assessment capabilities. MAS will aim to ensure that market participants' credit risk management processes are robust and commensurate to the scale and complexity of their operations. Resource requirements and relative scarcity of expertise in credit risk analysis pose challenges to enhancement of international credit assessment processes | <ul style="list-style-type: none"> Singapore-incorporated banks are required to comply with the public disclosure requirements prescribed under Pillar 3 of the BCBS capital framework On-site inspection and off-site supervisory review of credit risk assessment processes. Industry wide stress testing. Promulgation and periodic update of guidelines on sound practices in credit risk management. | MAS | <ul style="list-style-type: none"> Internal review of domestic risk-based capital rules to be completed 6 months after BCBS finalises its recommendations, with legislative changes effected within 1 year after completion of internal review. |

High-level summary of national authorities' action plans – Singapore

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|---|--|---------------------------|--|
| | <ul style="list-style-type: none"> MAS will also take reference from BCBS' work on a large exposures framework when reviewing domestic rules for banks on exposures to single counterparty groups. | | <p>in smaller institutions.</p> | | | <ul style="list-style-type: none"> Internal review of domestic large exposures rules to be completed 12 months after BCBS finalises its review. |
| <p>CCPs</p> <p><i>Principles III.4a and III.5a</i></p> | <ul style="list-style-type: none"> No references in laws and regulations. The MAS requires that CCPs have credit assessment procedures for collateral and member eligibility that do not rely solely on CRA ratings. | <ul style="list-style-type: none"> Take guidance from international standard-setters. | <ul style="list-style-type: none"> Dialogue with industry on enhancing credit risk assessment capabilities. MAS will aim to ensure that market participants' credit risk management processes are robust and commensurate to the scale and complexity of their operations. As mentioned under response for Principle I, MAS requires CCPs to have credit assessment processes that do not rely solely on CRA ratings. | <ul style="list-style-type: none"> Promulgation and periodic update of guidelines on sound practices in credit risk management. On-site and off-site supervisory review of credit risk assessment processes. | | |
| <p>Insurance/ Reinsurance</p> <p><i>Principle III.3</i></p> | <ul style="list-style-type: none"> Not considered mechanistic as credit ratings are just one component that is considered under the current capital framework. MAS is conducting a review of the risk-based capital framework and intends to stress that | <ul style="list-style-type: none"> Take guidance from international standard-setters. | <ul style="list-style-type: none"> Dialogue with industry on enhancing credit risk assessment capabilities. MAS will aim to ensure that market participants' credit risk management processes are robust and commensurate to the scale and complexity of their operations. Own-risk self-assessments/ enterprise risk management requirements involve self-assessment of all reasonable foreseeable and relevant material risks that an insurer | <ul style="list-style-type: none"> On-site and off-site supervisory review of credit risk assessment processes. Industry-wide stress testing. | | Ongoing |

High-level summary of national authorities' action plans – Singapore

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|--|--|---------------------------|---|
| | <p>insurers should conduct an appropriate level of due diligence prior to the use of credit ratings.</p> <ul style="list-style-type: none"> • Insurers are required to have in place risk management strategy setting out clear methodologies and assessments to justify selection of reinsurers and reinsurance arrangements, with credit ratings being only one factor in the assessment. | | <p>faces, including credit risk.</p> <ul style="list-style-type: none"> • Resource requirements and relative scarcity of expertise in credit risk analysis pose challenges to enhancement of international credit assessment processes in smaller institutions | | | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • Not applicable as private pension funds do not have a substantial presence in Singapore. | | | | | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • MAS' Code on CIS was amended to explicitly stress that a CIS operator should not rely solely or mechanistically on ratings issued by credit rating agencies. • Review (with a view to removal) references to credit ratings in CIS Code rules on property funds. | <ul style="list-style-type: none"> • MAS Code contains a requirement for CIS operators to make, where possible, its own credit assessments and to verify ratings issued by CRAs and apply a conservative approach. • Take guidance from international standard-setters. | <ul style="list-style-type: none"> • Dialogue with industry on enhancing credit risk assessment capabilities. MAS will carry out reviews of market participants' credit risk management processes to determine if they are robust and commensurate to the scale and complexity of their operations. • Capital markets services licensees are required to perform an appropriate level of due diligence prior to the use of any external CRA for calculating regulatory capital requirements. They are also expected to assess whether the regulatory | <ul style="list-style-type: none"> • Through supervisory processes, MAS encourages regular review of the use of CRA ratings in investment policies, guidelines and mandates of investment managers. • On-site and off-site supervisory review of credit risk assessment processes. | MAS | <ul style="list-style-type: none"> • Public consultation on changes to CIS code in 2014. • Other actions on an ongoing basis. |

High-level summary of national authorities' action plans – Singapore

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|---|---|---|---------------------------|--|
| | | | <p>risk weight applied is appropriate for the risk of the exposure, and consider any higher degree of credit risk in their evaluation of overall capital adequacy.</p> <ul style="list-style-type: none"> • Consultation on amendments to CIS Code to require CIS operator to disclose in prospectus credit risk assessment practices adopted for the purpose of verifying the ratings issued by CRAs. | | | |
| <p>Securities issuance</p> <p><i>Principle III.3</i></p> | <ul style="list-style-type: none"> • No mechanistic reliance as a CRA rating is required to be disclosed in the prospectus (for transparency purposes) where the issuer or the securities being offered has been given a CRA rating. | <ul style="list-style-type: none"> • MAS has introduced a requirement for the prospectus of ABS to disclose any form of due diligence (including any review, verification, or assessment) in respect of underlying assets that has been performed by the issuer, sponsor, originator, underwriter or any third party. The objective of this requirement is to encourage parties involved in the offer to conduct more careful due diligence and risk assessment (including credit risk | <ul style="list-style-type: none"> • To improve the quality of information given to investors to equip them to make informed investment decisions, MAS plans to require issuers to explain in the prospectus the meaning, function and limitations of CRA ratings. • In terms of continuous disclosures, for unlisted debentures, MAS will be giving legal effect to requirements currently under Guidelines which require issuers to provide timely and meaningful ongoing disclosures to investors. Issuers must make available semi-annual and annual reports as well as ongoing disclosure of changes that may materially affect the risks and returns, and price and value of the debentures. This complements the disclosure requirements for listed products, where the exchange requires issuers to immediately announce information which may have a material effect on the price/value of the securities. | <ul style="list-style-type: none"> • In MAS' review of lodged prospectuses for compliance with statutory disclosure requirements, MAS checks that issuers have made adequate disclosures on credit ratings to enable investors to understand the meaning, function, and limitations of credit ratings. | MAS | <ul style="list-style-type: none"> • Regulatory changes (on prospectus disclosure enhancements) to be effected in 2014. • Other actions on an ongoing basis. |

High-level summary of national authorities' action plans – Singapore

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|---|---|--|---------------------------|-----------------|
| | | assessment) on underlying assets. <ul style="list-style-type: none"> • Take guidance from international standard-setters. | | | | |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • No substantial hard-wiring of credit ratings in legislation beyond what prescribed in international standards. • Identified references unlikely to encourage mechanistic reliance by financial institutions. | <ul style="list-style-type: none"> • Taking guidance from international standard setters. | <ul style="list-style-type: none"> • Requirement to perform an appropriate level of due diligence prior to the use of credit ratings by any recognised CRA for regulatory capital purposes. They are also expected to assess whether the regulatory risk weight applied is appropriate for the risk of the exposure, and consider any higher degree of credit risk in their evaluation of overall capital adequacy. • Dialogue with industry on enhancing credit risk assessment capabilities. MAS will aim to ensure that market participants' credit risk management processes are robust and commensurate to the scale and complexity of their operations. | <ul style="list-style-type: none"> • Onsite inspections and off-site supervisory review of credit risk assessment processes. • Promulgation and periodic update of guidelines on sound practices in credit risk management. • Regular dialogue with industry through firm-specific and roundtable discussions to understand challenges. | MAS | Ongoing |

High-level summary of national authorities' action plans – South Africa

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|--|---|---|---------------------------|---|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> No reliance for monetary policy operations. For reserves management, minimum CRA ratings are used to determine securities and counterparty eligibility; CRA ratings are used as input into a model for setting counterparty limits for cash deposits. CRA ratings determine eligible asset classes for the securities lending program. | <ul style="list-style-type: none"> A CDS-based model is used for monitoring issuers. The model for setting cash deposit limits uses CRA default rates, market-derived signal ratings and Basel risk weights. | <ul style="list-style-type: none"> An in-house model for determining cash deposit limits was developed. The CDS monitoring model is being refined. The South African Reserve Bank (SARB) is looking to enhance staff skills in quantitative credit risk models and qualitative fundamental credit analysis (financial statement, industry analysis), combined with economic forecasts. | | | End-2015 |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> Changes in international standards are required to enable further removal of references to CRA ratings in laws and regulations relating to banks. | <ul style="list-style-type: none"> South Africa supports the forthcoming work of the BCBS TFSA to propose alternatives to CRA ratings. | | <ul style="list-style-type: none"> Specific disclosure requirements are incorporated in Regulation 43(2)(d) of the Regulations relating to Banks. This regulation prescribes that a bank shall disclose sufficiently detailed information in respect of the bank's risk-management objectives and policies | SARB | According to BCBS implementation schedule |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> Membership requirements do not rely on CRA ratings. Only cash is accepted as collateral. CCPs use CRA ratings to determine where to invest cash margin. | <ul style="list-style-type: none"> Will use leverage ratios, market capitalisation and regulatory capital coverage to assess strength of investment counterparties. | | <ul style="list-style-type: none"> South African Financial Services Board (SA-FSB) has assessed Safcom against CPSS-IOSCO PFMI and deems it to be a 'qualifying CCP'. JSE has reviewed CCP's investment policy and as part of this is investigating placing some of the cash margin on deposit with the central bank through government bonds, decreasing investment risk with banks. | SA-FSB | |

High-level summary of national authorities' action plans – South Africa

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|---|--|---|---------------------------|-----------------|
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • New solvency regime (SAM) to be in place by 2016. No mechanistic reliance under SAM. | | <ul style="list-style-type: none"> • SAM also requires a strong internal risk assessment and monitoring approach. | | SA-FSB | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • Regulation states that a pension fund may take CRA ratings into account, but such ratings should not be relied on in isolation for risk assessment or analysis of an asset. | | <ul style="list-style-type: none"> • Monitoring of limits is carried out through quarterly reporting to the registrar and possible implementation of due diligence guidelines. • Notice to be issued to determine the appropriate use of CRA ratings. | <ul style="list-style-type: none"> • Monitoring is carried out through on-site visits. | SA-FSB | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Board Notice 80 of 2012 removed reliance on CRA ratings and provided an alternative standard to assessing instruments for investment by a CIS. • The FAIS Act does not have any provisions relating to reliance on credit ratings. | <ul style="list-style-type: none"> • A general obligation requires Financial Service Providers (FSP), including investment managers, to provide services with due skill, care and diligence. Therefore, FSPs cannot rely only on a CRA rating but must have an internal risk assessment process. | <ul style="list-style-type: none"> • All CIS managers are required to provide a risk management programme for review by trustees and auditors. • FSPs are required to employ resources, procedures and technological systems to eliminate the risk that clients will suffer financial loss through, inter alia, poor administration, negligence and professional misconduct. • FSPs must have internal control procedures to ensure that financial and other information used by the FSP is reliable. • FAIS is in the process of developing requirements for private equity fund managers that, <i>inter alia</i>, require such managers to implement an appropriate, documented and regularly updated due diligence process in the selection and monitoring of | <ul style="list-style-type: none"> • The trustees of CIS to constantly monitor compliance and report breaches to the supervisor for regulatory action where necessary including regulatory issues involving CRAs. • The compliance officer of an investment manager must monitor such manager's compliance with the FAIS Act and report any material irregularities to the regulator. | SA-FSB | |

High-level summary of national authorities' action plans – South Africa

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|---|---|--|---------------------------|-----------------|
| | | | investments of the fund, according to the investment strategy, the objectives and risk profile of the fund and in the selection of counterparties. | | | |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> Section 19 of the JSE Listings Requirements is in the process of being amended to remove references to CRA ratings. The Debt Listings Requirements do not require a CRA rating but require the disclosure of credit ratings in the event that one has been obtained. No amendments are required. | <ul style="list-style-type: none"> Not applicable. Appropriate disclosure for purposes of pricing the instrument by the investor is already a requirement, and not an alternative. | <ul style="list-style-type: none"> The JSE ensures that sufficient and transparent disclosure is made in order for investors to make investment decisions. No requirements are imposed directly on the investor to conduct due diligence and their own independent credit judgements in making investment decisions. No requirements are imposed directly on the investor to conduct risk analysis commensurate with the complexity and other characteristics of investment and materiality of their exposure. In the debt market, the issuer is required to disclose a risk statement to investors, which includes the various forms of risks faced by an investor should they invest in that particular instrument. | <ul style="list-style-type: none"> There are no references to CRA ratings in any JSE rules in relation to its authorised users. | JSE | End of Q3 2014 |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> No references. | <ul style="list-style-type: none"> No supervisory initiatives to discourage use of CRA ratings: little room for securities firms to rely on them. | <ul style="list-style-type: none"> No supervisory initiatives to discourage use of CRA ratings: little room for securities firms to rely on them. | <ul style="list-style-type: none"> No supervisory initiatives to discourage use of CRA ratings: little room for securities firms to rely on them. | JSE | |

High-level summary of national authorities' action plans – Spain

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|--|---|---------------------------|-------------------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> For monetary policy operations, see EU action plan. CRA ratings are not used for reserve management, with the exception of bank deposits, both in terms of counterparty eligibility and limits. | | <ul style="list-style-type: none"> Assessments of counterparties and issuers are performed yearly based on qualitative and quantitative analysis. | | | No action is planned |
| Banking <i>Principle III.2</i> | | | | <ul style="list-style-type: none"> A continuous supervisory process for the validation and approval of the internal ratings models has been adopted, based on the following points: monitoring the effective integration of those models in day-to-day risk management, sensitivity analyses, testing of the behaviour of ratings compared to the observed default data, comparisons between different IRB banks in Spain. | Bank of Spain | Since beginning of 2014 |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> See EU action plan. | | | | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> See EU action plan. | <ul style="list-style-type: none"> Actions incorporated into EU efforts. | | | DGSFP | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> Spain is undertaking the transposition of the modification of the EU Directive 2003/41. | | | | DGSFP | |

High-level summary of national authorities' action plans – Spain

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|---|---|---|---------------------------|--------------------|
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> Spain is undertaking the transposition of EU Directives in investment funds management. CNMV's Circular 6/2010, on CIS investment in derivatives instruments, was amended to delete the requirement that OTC's counterparty had a minimum CRA rating. This requirement was replaced by the internal management company's assessment of the counterparty's creditworthiness. Other references to CRA ratings that still remain in our regulation, i.e. public debt where an investment fund is allowed to surpass general diversification limits, and creditworthiness of the funds guarantors have been revised throughout 2012. Additionally, all the CRA rating references are balanced by a mention to the management company obligation of carrying out an additional internal credit assessment. | <ul style="list-style-type: none"> Completion of the transposition into Spanish law of EU law regarding the use of credit ratings in asset management (namely directive 2013/14/EU of 21 May 2013) is pending. This Directive provides that asset management companies shall not rely solely or mechanistically on credit ratings. | <ul style="list-style-type: none"> CNMV's Circular 6/2009, on Management Companies' internal control, requires the management companies to have a proper management risk process in place which is able to measure all the risks taken by any CIS, including credit risk. The mentioned Directive 2013/14/EU requires that a management company 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. | <ul style="list-style-type: none"> The CNMV carries out periodic inspections to verify, that management companies have a proper risk management process. Directive 2013/14/EU requires that the competent authority monitor the adequacy of the credit assessment processes employed for each management or investment company. We have not yet implemented this Directive in our regulatory framework, but we envisage doing so shortly. | CNMV/ Spanish Treasury | See EU action plan |

High-level summary of national authorities' action plans – Spain

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|---|--|---------------------------|--------------------|
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> • See EU action plan. | <ul style="list-style-type: none"> • See EU action plan. | <ul style="list-style-type: none"> • See EU action plan. | <ul style="list-style-type: none"> • See EU action plan. | CNMV | See EU action plan |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • See EU action plan: references in capital requirements and Investment Firms Regulation 217/2008 (transposition of MiFID, article 18 of implementing Directive 2006/73/EC). • No reference in purely domestic legislation. | | <ul style="list-style-type: none"> • Due to relatively small positions exposed to credit risk, no securities firm in Spain uses their own credit assessment processes to calculate capital requirements. | <ul style="list-style-type: none"> • Review of securities firms' own credit assessment. | CNMV | See EU action plan |

High-level summary of national authorities' action plans – Switzerland

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|---|--|---------------------------|--|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> For monetary policy operations, eligible collateral is based on minimum CRA ratings. For reserves management: minimum CRA ratings are used to determine eligibility of securities and counterparties; for repo operations, collateral is defined in ISDA/CSA agreements. | <ul style="list-style-type: none"> Possible alternative credit risk measures other than CRA ratings are periodically considered but will not replace CRA ratings. | <ul style="list-style-type: none"> Internal credit assessments are not made in normal course; in certain circumstances exceptions to rules for credit risk limits and collateral eligibility are based on an internal assessment. SNB is continuously evaluating the adequacy of its internal risk assessment capabilities. | | SNB | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> Few references have been found, most of which are the result of implementing international standards, in particular the BCBS framework (Basel II/III). Some references in ordinances and regulations (capital adequacy and liquidity) in accordance with the BCBS standardised approach (35% of the total credit exposure of the Swiss banking system lie with banks using standardised approach). | <ul style="list-style-type: none"> Actively participating in the work of SSBs. Swiss authorities will organise a workshop in 2014 in order to facilitate the exchange of views and the sharing of best practices among market participants regarding additional information used, and alternatives to CRA ratings in credit risk assessment. | <ul style="list-style-type: none"> FINMA circular on CRAs cautions against overreliance on CRA ratings. Banks are required to have adequate risk management capacities. | | FINMA | <ul style="list-style-type: none"> Action plan is scheduled to be published along with the FSB report in April 2014. Workshop in 2014. |

High-level summary of national authorities' action plans – Switzerland

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|---|--|---|---------------------------|------------------|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> No references to CRA ratings in National Bank Ordinance. CCPs are regulated as banks and so references to CRA ratings in existing Basel legislation apply. CCPs use CRA ratings to determine margin requirements for members and collateral eligibility criteria (haircuts). | | | <ul style="list-style-type: none"> In June 2014, National Bank Ordinance will enter into force, implementing CPSS-IOSCO PFMI. Compliance with this will aim to prevent procyclical effects and as such SIS x-clear is reviewing its risk management framework in general and its collateral framework in particular. | SNB FINMA | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> Minor references remain in insurance law and regulations. No further actions are considered necessary. | <ul style="list-style-type: none"> Swiss authorities will organise a workshop in 2014 in order to facilitate the sharing of best practices among market participants regarding additional information used and alternatives to CRA ratings in credit risk assessment. Delegation of responsibility for risk management to industry. | <ul style="list-style-type: none"> FINMA insurance circulars caution against overreliance on CRA ratings. Insurers are required to have adequate risk management capacities. Encourage the use of internal models, which are carefully reviewed by the supervisory authority. | | FINMA | Workshop in 2014 |

High-level summary of national authorities' action plans – Switzerland

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|--|--|--|---------------------------|---|
| <p>Pension sector</p> <p><i>Principle III.3</i></p> | <ul style="list-style-type: none"> No references in legislation. | <ul style="list-style-type: none"> Delegation of responsibility for risk management to industry. There is a lack of alternatives, especially for small market players. Further analysis by the FSB and SSBs to provide internationally comparable alternatives. Swiss authorities will organise a workshop in 2014 to facilitate the exchange of views and the sharing of best practices on information used and alternatives to CRA ratings. Swiss authorities participating in and contributing to conferences. | <ul style="list-style-type: none"> Updated disclosure requirements (in the banking regulation) will promote strengthened credit assessment capabilities of market participants and foster transparency to investors (such as pension funds) by encouraging the publication of exposures where the capital assessment is based on external or internal credit ratings. | | <p>FSIO FINMA</p> | <p>Workshop in 2014</p> |
| <p>Investment managers</p> <p><i>Principle III.3</i></p> | <ul style="list-style-type: none"> Regarding the regulation of CIS, FINMA is planning to remove references to external ratings for investment management institutions in the course of the current revision of the FINMA Collective Investment Schemes Ordinance. The revised ordinance on CIS is subject to results of a public hearing and decision by FINMA board of directors. | <ul style="list-style-type: none"> To reduce mechanistic reliance on CRA ratings and to promote the strengthening of credit assessment capabilities, the Swiss authorities will organise a workshop in 2014. Main objective is the sharing of best practices among market participants and to raise awareness about potential risks associated with CRAs and their ratings. Participation in international fora, such as BCBS working groups. | <ul style="list-style-type: none"> Workshop to promote the strengthening of credit risk assessment capabilities. Updated disclosure requirements (in the banking regulation) will promote strengthened credit assessment capabilities of market participants and foster transparency to investors by encouraging the publication of exposures where the capital assessment is based on external or internal credit ratings. Own credit assessment is required in addition to the use of credit ratings. | | <p>FINMA</p> | <ul style="list-style-type: none"> Workshop in 2014. New ordinance in 2015. |

High-level summary of national authorities' action plans – Switzerland

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|--|--|---------------------------|--|
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> Overall, only few references have been found, most of which are the result of implementing international standards, in particular the Basel framework (Basel II/III). | <ul style="list-style-type: none"> Generally, in Switzerland, all regulated entities such as banks or insurers are required to have adequate risk management capacities. These include approaches relying on external as well as on internal sources of information. In this respect, the practical relevance of CRA ratings in Switzerland is moderate, due to a comparatively small and largely unrated domestic bond market. | <ul style="list-style-type: none"> The main challenge to reducing reliance on CRA ratings, as recognised by the FSB, is the lack of compelling alternatives, especially for small market players with limited capacities to develop their own credit assessment tools. Switzerland welcomes further analysis by the FSB in collaboration with SSBs to provide possible alternatives. | | FINMA | In line with agreed international requirements |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> Securities firms are regulated as banks and so references to CRA ratings in existing Basel legislation apply. | <ul style="list-style-type: none"> Main challenge is the lack of compelling alternatives, especially for small market players with limited capacities to develop their own credit assessment tools. Participating actively in international bodies and keeping in view the outcomes of international standard setters' work. | <ul style="list-style-type: none"> FINMA circular on CRAs cautions against overreliance on CRA ratings. Requirement for all regulated entities to have adequate risk management capacities. | <ul style="list-style-type: none"> Workshop in 2014 to facilitate the exchange of views and the sharing of best practices among market participants and raise awareness about potential risks associated with CRAs and their ratings. | FINMA | Workshop to be organised in 2014 |

High-level summary of national authorities' action plans – Turkey

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|---|---|---|-------------------------------|---|
| <p>Central bank operations</p> <p><i>Principle III.1</i></p> | <ul style="list-style-type: none"> • CRA ratings are not used for market operations (both collateral and outright purchases). • For foreign reserves management: regulations set out minimum CRA ratings for eligible counterparties and securities; counterparty limits are based on an internal credit scoring model in which CRA ratings are one input. | <ul style="list-style-type: none"> • The credit scoring model includes CRA ratings, financial data, country ratings and support status of institutions. • Market indicators of credit risk (e.g. CDS premia, equity prices) are used in risk assessments of securities for market operations. | <ul style="list-style-type: none"> • The foreign reserves management group is working on a credit assessment model for sovereign issuers (to supplement the required minimum CRA rating). • Enhancements to the credit scoring model for counterparty credit limits are being made to further reduce reliance on CRA ratings. | | | <ul style="list-style-type: none"> • July 2014 for the sovereign credit model. • End-2014 for improvements to counterparty credit scoring model. |
| <p>Banking</p> <p><i>Principle III.2</i></p> | <ul style="list-style-type: none"> • The most important reference to CRA ratings in banking regulations is the capital adequacy related regulations. • Currently all banks use the BCBS standardised approach. | <ul style="list-style-type: none"> • Await the finalisation of the BCBS work on standardised approaches. | <ul style="list-style-type: none"> • All banks are obliged to make their own credit assessments before extending credits and not to solely rely on CRA ratings. | <ul style="list-style-type: none"> • Assessment of the internal risk management capabilities of banks through on-site examinations of risk management. | BRSA | <ul style="list-style-type: none"> • Will apply regulations after adaptation and quantitative impact study period within 1 year after the new international standards agreed. • More complex rules will need more time. |

High-level summary of national authorities' action plans – Turkey

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|--|--|-------------------------------|-----------------|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> No references in laws or regulations. CCPs are required to perform own assessments of members' creditworthiness and to set internal credit limits. | | | <ul style="list-style-type: none"> CCPs are legally required to implement CPSS-IOSCO PFMI. | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> Changes in national regulation are expected by end-2014. | | | | Under-secretariat of Treasury | End-2014 |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> Existing regulations require pension funds to have counterparties with investment grade ratings in order to buy securities that are traded over-the-counter (OTC). Intention to act in the long term in accordance with international standards regarding reducing effects of CRA ratings. | | | | Capital Market Board (CMB) | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> Existing regulations require investment funds to have counterparties with investment grade ratings. Currently, this reference for OTC counterparty eligibility is maintained. Intention to act in the long term in accordance with international standards regarding reducing effects of CRA ratings. | | <ul style="list-style-type: none"> Portfolio management companies and fund sponsors are already obliged to establish internal compliance and risk management systems, including due diligence of counterparty risk for every transaction. | | CMB | |

High-level summary of national authorities' action plans – Turkey

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|---|--|-------------------------------|---|
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> • New regulations still keep references to CRA ratings for issuers due to the lack of suitable alternative standards. CMB will continue to act in accordance with international standards to reduce reliance on CRA ratings. • New debt securities regulation: According to the regulation, when CMB determines the issuance limit of debt securities (the total amount of debt securities to be issued in a one-year period) for issuers, banks and financial institutions may double their limit if they have been granted one of the top-three ratings in the investment grade. • New sukuk regulation: One of the eligible founders of Asset Leasing Company (ALC) determined in the regulation, are companies with an investment grade rating. | <ul style="list-style-type: none"> • Will keep the sukuk reference due to the lack of suitable alternative standards. • CMB to differentiate issuers for each capital market instrument in its own regulation taking into account the structure of the instrument or the type of the issuance (with or without public offering). | <ul style="list-style-type: none"> • For complex instruments, companies operating under the supervision of authorities can be determined as issuers so as to remove credit rating references for other companies. Another way of replacing or removing references to CRA ratings can be to differentiate issuers according to the issuance type. | | CMB | Drafting period planned to be completed end-2014/mid-2015 |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • No reliance on CRA ratings in regulations. • Two unintended incentives in draft regulation on capital adequacy and repo-reverse repo transactions of investment firms are currently maintained. • Intention to act in the long term in accordance with international standards regarding reducing effects of CRA ratings. | | | | CMB | |

High-level summary of national authorities' action plans – United Kingdom

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|---|---|---------------------------|-----------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> For both monetary policy and reserves management purposes, the BoE considers CRA ratings as one factor in determining eligible collateral and investments. CRA ratings are used to define eligible sovereign collateral under ISDA agreements. Counterparty eligibility and limits are determined using a range of information that includes CRA ratings as one minor item. | <ul style="list-style-type: none"> For eligible assets, selected financial information, market indicators are used in addition to CRA ratings. Haircuts on loan pools and illiquid securities are determined on estimated probability of default and loss given default in severe macroeconomic conditions. Haircuts on liquid securities are determined using a conservative methodology based on observed volatility of market prices in stressed conditions. For counterparties, other data considered includes capital, asset quality, market indicators, profitability, funding and liquidity, business and strategy. | <ul style="list-style-type: none"> The Bank of England (BoE) has developed its own internal ratings for trading counterparties. Own credit judgements are made in regard to acceptable collateral. Credit assessments include in-depth review of counterparty balance sheets, use of market indicators, counterparty visits/discussions and other market intelligence. | <ul style="list-style-type: none"> Actions have been completed. | | |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> See EU action plan. English laws referring to CRA ratings generally result from European Directives. | <ul style="list-style-type: none"> The Prudential Regulation Authority (PRA) is participating in the ongoing policy work impacting CRA influence at both international (BCBS) and European (EBA) levels; this includes participating in the BCBS TFSA, BCBS Ratings and Securitisation Workstream and in the work of the EBA Network on ECAI. | <ul style="list-style-type: none"> The PRA requires its regulated banks to have internal methodologies that enable them to assess the credit risk of exposures to individual obligors, securities or securitisation positions, as well as credit risk at the portfolio level. Those internal methodologies are not permitted to rely solely or mechanistically on external credit ratings. | <ul style="list-style-type: none"> PRA assesses the impact of various policy options on firms reporting and publicly disclosing IRB credit risk exposures as if they were on the standardised approach. The aim is to find a more standard metric against which to assess internally modelled approaches, rather than relying on CRAs. The PRA checks the adequacy of its regulated firms' credit assessment processes regularly as part of the PRA's Technical Risk Reviews. | PRA | Ongoing |

High-level summary of national authorities' action plans – United Kingdom

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|--|---|--|---|---|--------------------|
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • See EU action plan. • CRA ratings are only one parameter in collateral eligibility and investment policy. | | | | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Relying on EU activity. | <ul style="list-style-type: none"> • Actions incorporated into EU efforts. | | | | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • Implementation of EU-directives. | | | | | |
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • Transposition of EU legislation to reduce reliance on ratings in national law. | <ul style="list-style-type: none"> • Generally, this would be up to the industry in compliance with the law. | <ul style="list-style-type: none"> • In line with the new EU rules, financial institutions to develop own credit risk assessment tools. | <ul style="list-style-type: none"> • In line with CRA III, competent authorities to monitor adequacy of own credit risk assessment processes of the supervised entities. | HMT / FCA / DWP | See EU action plan |
| Securities issuance <i>Principle III.3</i> | <ul style="list-style-type: none"> • See EU action plan. | <ul style="list-style-type: none"> • There is no regulatory requirement by UK Authorities that issuers of securities should seek to obtain credit ratings for each issuance, and the use of ratings in disclosures by securities issuers is not directly assessed. | | | The UK Listing Authority (part of the UK Financial Conduct Authority) | See EU action plan |
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> • See EU action plan. | <ul style="list-style-type: none"> • See EU action plan. | <ul style="list-style-type: none"> • See EU action plan. | <ul style="list-style-type: none"> • See EU action plan. | | See EU action plan |

High-level summary of national authorities' action plans – United States

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|---|--|---|--|---------------------------|-----------------------|
| Central bank operations <i>Principle III.1</i> | <ul style="list-style-type: none"> • No reliance for monetary policy operations (outright purchases/sales and repo-type operations). • CRA ratings are used to determine the eligibility of securities collateral for Discount Window or payment system risk purposes. • CRA ratings are one aspect used to determine foreign exchange counterparty eligibility. | | <ul style="list-style-type: none"> • The Federal Reserve does not plan to discontinue the use of CRA ratings. It continues to evaluate the feasibility of developing internal credit risk assessment capabilities. | | | No timelines provided |
| Banking <i>Principle III.2</i> | <ul style="list-style-type: none"> • The FDIC has revised the deposit insurance assessment rules by removing references to credit ratings. | <ul style="list-style-type: none"> • In rulemakings implementing Basel III, the agencies have required that institutions supplement any consideration of external ratings with due diligence processes and additional analyses that are appropriate for the institution’s risk profile and for the size and complexity of the instrument. • The OCC issued guidance to clarify steps national banks and savings associations are ordinarily expected to take to demonstrate they have properly verified their investments meet credit quality standards and are in compliance with due diligence requirements. • The FDIC adopted similar revisions for purposes of its regulation regarding permissible corporate debt | | | | |

High-level summary of national authorities' action plans – United States

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|---|--|---------------------------|-----------------|
| | | securities investments of state savings associations, in accordance with section 939(a) of the Dodd-Frank Act. | | | | |
| CCPs <i>Principles III.4a and III.5a</i> | <ul style="list-style-type: none"> • SEC reviews CCPs’ rules and examines CCPs’ compliance with SEC rules. • CCPs’ reliance on CRA ratings varies between CCPs, with some using CRA ratings as an input into counterparty credit limits and investment decisions. CCPs’ collateral haircuts do not specifically refer to CRA ratings. • In general, CCPs’ margin methodologies do not rely on CRA ratings. | <ul style="list-style-type: none"> • All CCPs registered with the SEC use an internal ‘Watch List’ to monitor clearing members and can require them to post additional margin on top of base initial margin. Two of the seven CCPs registered with the SEC use CRA ratings as one input to internal ratings of members. | <ul style="list-style-type: none"> • SEC reviews CCPs’ rules and examines CCPs’ compliance with SEC rules. • CCPs’ reliance on CRA ratings varies between CCPs, with some using CRA ratings as an input into counterparty credit limits and investment decisions. CCPs’ collateral haircuts do not specifically refer to CRA ratings. • In general, CCPs’ margin methodologies do not rely on CRA ratings. | | | |
| Insurance/ Reinsurance <i>Principle III.3</i> | <ul style="list-style-type: none"> • Identify reliance and develop a plan to deal with any such references in state legislation by mid-2015. | | <ul style="list-style-type: none"> • Additional activity (e.g. ORSA). | | | |
| Pension sector <i>Principle III.3</i> | <ul style="list-style-type: none"> • Removal of references pertaining to the mandatory use of CRA ratings has been completed. | | | | SEC | |

High-level summary of national authorities' action plans – United States

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|--|--|---|---|--|---------------------------|--------------------------------------|
| Investment managers <i>Principle III.3</i> | <ul style="list-style-type: none"> • The Dodd-Frank Act removed the reference to credit ratings in the Investment Company Act of 1940 (ICA). • The SEC adopted rule 6a-5 under ICA, which provided an alternative standard of credit worthiness in place of the ICA reference. • Consistent with section 939A of the Dodd-Frank Act, the SEC has taken action with respect to two rules under the ICA, rule 5b-3 and rule 2a-7, to replace references to ratings with alternative standards. • The one rule under the Investment Advisers Act of 1940 (IAA) that references a credit rating is a temporary rule that will expire on December 14, 2014. | <ul style="list-style-type: none"> • Under rule 6a-5 under the ICA, the board of directors of certain business industrial development companies determines that certain debt security investments meet certain credit quality standards. • Under amendments to rule 5b3, the fund’s board of directors determines that certain collateral securities meet a certain credit quality standard • Under proposed amendments to rule 2a-7(the money market fund rule), the fund’s board of directors would be required to determine that each portfolio security meets a certain credit quality standard. | <ul style="list-style-type: none"> • SEC examiners’ current process for review in this area is dependent upon the focus of the exam. • For example if there are internal, contractual or disclosure limits on investment policies of the adviser and/or investors, the examiners may review and test for compliance with these limits as part of their portfolio management review. | <ul style="list-style-type: none"> • See previous column. | SEC | Some actions completed, some ongoing |

High-level summary of national authorities' action plans – United States

| | Principle I: Reliance in policies and activities | Principle II: Efforts to implement/develop alternative measures | Principle II: Efforts to implement/develop internal credit assessment processes | Principles II: Strengthen supervisory oversight to assess the adequacy of market participants own credit assessment processes and disclosures | National Authority | Timeline |
|---|---|--|---|---|---------------------------|-----------------|
| Broker dealers <i>Principle III.3</i> | <ul style="list-style-type: none"> Requirement in the DFA for each federal agency to remove all references to or requirements of reliance on CRA ratings and substitute them by alternative standards of creditworthiness. Some amendments already adopted and other rulemaking proposals to be finalised (Exchange Act Rules 101 and 102 of Regulation M). | <ul style="list-style-type: none"> Adopted an alternative standard of creditworthiness for the purposes of broker-dealers' net capital rule: lower haircuts may be applied for commercial paper, nonconvertible debt, and preferred stock if the security has a "minimal amount of credit risk" as determined by the broker-dealer pursuant to policies and procedures established, documented, maintained, and enforced to assess creditworthiness. | <ul style="list-style-type: none"> Identified a number of factors, not exhaustive or mutually exclusive, a broker-dealer could consider when determining whether a security is of minimal credit risk. | <ul style="list-style-type: none"> Review of securities firms' credit assessment processes. Review of senior management reports of credit risk, including internal credit rating information. | SEC | Ongoing |
| Principle III.5 | | <ul style="list-style-type: none"> The SEC's approach to this issue is a package of long standing disclosure and enforcement tools. As part of a larger proposal to significantly revise the disclosure regime, offering process and reporting requirements for ABS, the Commission has proposed to require ABS issuers in registered transactions to provide investors with a minimum amount of time to review transaction-specific information before an investment decision. The Commission has also proposed to require that ABS issuers provide investors with information about each asset in the underlying pool. | | | SEC | Ongoing |