

## **Joint Committee of the European Supervisory Authorities**

Brussels, 27 February 2015

*Re: ESAs Discussion Paper on the use of credit ratings by financial intermediaries*

Dear Sir/Madam,

Eurofinas, the voice of consumer credit providers at European level, welcomes the opportunity to contribute to the Joint Committee of the European Supervisory Authority's (ESAs) Discussion Paper on the use of credit ratings by financial intermediaries.

Eurofinas brings together associations throughout Europe that represent consumer credit providers. The scope of products covered by Eurofinas members includes all forms of consumer credit products such as personal loans, linked credit, credit cards and store cards. Consumer credit facilitates access to assets and services as diverse as cars, furniture, electronic appliances, education etc. By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe. It also benefits manufacturers, motor dealers and retailers as a key tool for their sales. It is estimated that together Eurofinas members financed over **321.7 billion Euros worth of new loans** during 2013 with outstandings reaching 827.9 billion Euros at the end of the year.

We understand the background of this initiative and support the objective that all firms have appropriate systems in place to ensure responsible, sound and transparent business practice. Against this background, we believe that external credit ratings can play a positive role to assess risk and display credit quality. While we agree that different techniques and tools for risk assessment can be promoted, we also believe that the diversity and natural operational limitations of financial intermediaries should be at the heart of any supervisory policy in this field.



As acknowledged by the ESAs in the discussion paper, not all credit institutions have the technical ability and resources to produce their own estimations of credit risk and build an entire internal rating model. Firms may also alternate between internal and external references depending on types of exposures, business models or operational characteristics.

In this respect, we believe that firms should be allowed a choice in deciding what type of system suits best their needs and the risks they are exposed to. Such flexibility allows firms of all sizes to compete. We think the latter aspect may not have been sufficiently taken into account in the discussion paper. Credit rating agencies are subject to diligence requirements and professional standards to ensure the highest quality of risk assessment. We think that the reduction of mechanistic reliance on external credit ratings does not address the causes of potential misconduct by these organisations but rather limit and penalize users.

As indicated in the Discussion Paper, many international developments relating to credit ratings are currently ongoing. Regarding the use of credit ratings by credit institutions, we draw your attention to the work of the Basel Committee on Banking Supervision (BCBS) on the revisions to the standardised approach for credit risk. The BCBS seeks to substantially improve the standardised approach for credit risk, amongst others, through reducing reliance on external credit ratings. The work of the BCBS on the use of credit ratings is therefore not limited to the revision of the securitization framework.

The BCBS current framework for the standardised approach prescribes the use of external credit ratings to determine the risk weight of certain exposures. The Committee is investigating the suitability of substituting references to ratings with a limited number of risk drivers that provide a meaningful risk differentiation. Against this background, we feel that there should be consistency between the work of the BCBS and the ESA's initiative. It is critical to avoid the introduction or recommendation of differing standards in this field.

I remain at your disposal, should you be interested in discussing any specific issue. Alternatively feel free to contact my colleague Alexandre Giraud ([a.giraud@eurofinas.org](mailto:a.giraud@eurofinas.org) - tel: + 32 2 778 05 64).

Yours sincerely,

Tanguy van de Werve  
Director General