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June 18, 2010

Committee of European Securities Regulators (“CESR”)
Via email

Re: Consultation Paper on Guidance on Common Standards for Assessment of Compliance of Credit Rating Methodologies with the Requirements set out in Article 8(3) (“Consultation Paper”)

Dear CESR:

As a member of CESR’s Consultative Working Group (“CWG”) ¹, DBRS appreciates the opportunity to provide its comments on the Consultation Paper. DBRS plans to apply for registration under the European Union Regulation on Credit Rating Agencies (EU CRA Regulation) by the end of summer 2010.

The Consultation Paper sets out proposed guidelines on common standards for assessing compliance of credit rating methodologies with the requirements set out in Article 8.3 of the EU CRA Regulation. Article 8.3 provides that “a credit rating agency should use rating methodologies that are rigorous, systematic, continuous and subject to validation based on historical experience, including back-testing”. The guidelines set out detailed information that competent EU authorities would expect to receive to assess a CRA’s compliance with provisions per Article 8.3. The Consultation Paper indicates that the guidelines should be read in conjunction with CESR’s guidance on the information set out in Annex II, and that the applicant should provide a clear explanation for not submitting any specific information contained in the guidelines. That is, the guidelines set standards for both the CRA’s registration application and for ongoing assessment of compliance.

DBRS Comments

DBRS notes that the guidelines contain significant, new prescriptive standards. Issuing such proposals on May 17, 2010 noting a registration window of June 7 to September 7, 2010 strikes DBRS as very late timing for CRAs to develop and implement these areas for inclusion in their registration application. Therefore, DBRS suggests that CRAs be provided a grace period for later application of those methodology areas that significantly diverge from Annex II².

¹ The CWG provides ongoing advice relating to the implementation and application of EU CRA Regulation and the related rules and guidance.

² On June 4, 2010, CESR issued Guidance on Registration Process, Functioning of Colleges, Mediation Protocol, Information set out in Annex II, Information set for the Application for Certification and for the assessment of CRAs systemic importance.



With respect to endorsed ratings, it is not clear how these guidelines would apply, if at all. On May 21, 2010, CESR issued its technical advice to the European Commission on the equivalence between the U.S. regulatory and supervisory framework (U.S. regime) and the EU regulatory regime for CRAs. CESR concluded that the U.S. regime was broadly equivalent. However, CESR noted a number of differences that mainly relate to the disclosure of credit ratings, and the quality of credit ratings and credit rating methodologies. Clarity is requested regarding what should be done, if anything by CRAs who plan to use endorsement regarding the cited methodology and disclosure differences.

The guidelines also do not consider the differing size and complexity of existing CRAs and may create barriers to entry for new, smaller CRAs which, of necessity, may operate using broader spans of managerial control. The stipulated expectations for staffing, policies, procedures and information regarding the development, review, monitoring, validation and approval of methodologies envisage larger CRAs only. CESR has taken a proportionality approach in other guidance. DBRS suggests that CESR permit flexibility regarding the composition and organization of these various functions, notably in terms of the separation of duties, as long as the CRA can demonstrate appropriate management, control and mitigation of conflicts of interest in ways that are proportionate to its size and the complexity of its business, but still meet the requirements set out in Article 8(3).

For example, DBRS agrees that the independent review of methodologies is an important aspect of governance. However, DBRS suggests that involvement of rating analysts in the development of methodologies produces more rigorous and accurate methodologies. Rating analysts have the expertise and experience that is necessary to develop methodologies which should then be independently reviewed and monitored to ensure their consistency, objectivity and effectiveness.

DBRS would be pleased to further discuss any of the matters raised herein and/or provide additional information. Please do not hesitate to contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mary Keogh". The signature is fluid and cursive, with a prominent loop at the end.

Mary Keogh
Managing Director
Global Regulatory Affairs
416.597.3614
