

References to external ratings or credit rating agencies in EU law

Regulation	Regulation full name	References to CRA/external ratings	Excerpts from articles with the potential to trigger mechanistic reliance on CRA
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC	Articles 70, 71, 72, 73, 77, 79, 161	<p>(70) Own funds requirements for credit risk and market risk should be based on external credit ratings only to the extent necessary. Where credit risk is material, institutions should therefore generally seek to implement internal ratings-based approaches or internal models. However, standardised approaches that rely on external credit ratings could be used where credit risk is less material, which is typically the case for less sophisticated institutions, for insignificant exposure classes, or in situations where using internal approaches would be overly burdensome.</p> <p>Article 79 - Credit and counterparty risk Competent authorities shall ensure that: (b) Institutions have internal methodologies that enable them to assess the credit risk of exposures to individual obligors, securities or securitisation positions and credit risk at the portfolio level. In particular, internal methodologies shall not rely solely or mechanistically on external credit ratings. Where own funds requirements are based on a rating by an External Credit Assessment Institution (ECAI) or based on the fact that an exposure is unrated, this shall not exempt institutions from additionally considering other relevant information for assessing their allocation of internal capital;</p>
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012	Articles 42, 134, 136, 171, 180, 259, 379, 444, 452	<p>Article 30 - Additional outflows 2. Credit institutions shall calculate and notify to the competent authorities an additional outflow for all contracts entered into the contractual conditions of which lead within 30 calendar days and following a material deterioration of the credit quality of the credit institution to additional liquidity outflows or collateral needs. Credit institutions shall notify the competent authorities of this outflow no later than the submission of the reporting in accordance with Article 415 of Regulation (EU) No 575/2013. Where competent authorities consider such outflows material in relation to the potential liquidity outflows of the credit institution, they shall require the credit institution to add an additional outflow for those contracts corresponding to the additional collateral needs or cash outflows resulting from a material deterioration in the credit quality of the credit institution corresponding to a downgrade in its external credit assessment by three notches. The credit institution shall apply a 100 % outflow rate to those additional collateral or cash outflows. The credit institution shall regularly review the extent of this material deterioration in the light of what is relevant under the contracts it has entered into and shall notify the result of its review to the competent authorities.</p> <p>Article 138 - General requirements An institution may nominate one or more ECAIs to be used for the determination of risk weights to be assigned to assets and off-balance sheet items.</p>

			Article 197 Eligibility of collateral under all approaches and methods; point 1.(h)
CRR Delegated Regulation	Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions	Chapter II – Liquid Assets	Chapter II – Liquid assets are defined using ECAI minimum credit quality steps Article 10-1, 11, 12, 13
Solvency II	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)	Articles 122, 126	-
Solvency II Delegated Act	Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)	(2), (4), (5), Articles 3, 4, 6	(2) In order to reduce overreliance on external ratings, insurance and reinsurance undertakings should aim at having their own credit assessment on all their exposures. However, in view of the proportionality principle, insurance and reinsurance undertakings should only be required to have own credit assessments on their larger or more complex exposures. (4) In order to avoid the risk of biased estimations of the credit risk by insurance and reinsurance undertakings that do not use an approved internal model to calculate the credit risk in their Solvency Capital Requirement, their own credit assessments should not result in lower capital requirements than the ones derived from external ratings. Article 4: 2. Insurance or reinsurance undertakings shall nominate one or more ECAI to be used for the calculation of the Solvency Capital Requirement according to the standard formula.
IROP II	(EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and	Art. 19(2)	-

	supervision of institutions for occupational retirement provision (IORPs)		
EMIR	Regulation (EU) no 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories	See below	-
EMIR - Regulatory Technical Standards (RTS)	Commission Delegated Regulation (EU) No 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties	Articles 41, 42, 44, 45, Annex I and Annex II	-
EMIR - Regulatory Technical Standards (RTS)	Commission Delegated Regulation (EU) 2016/2251 of 4 October 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty	(25), Article 6, 19, Annex III	-

<p>Benchmark regulation</p>	<p>Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014</p>	<p>(28), Article 11, 13</p>	<p>Article 13 (c) the procedures for consulting on any proposed material change in the administrator's methodology and the rationale for such changes, including a definition of what constitutes a material change and the circumstances in which the administrator is to notify users of any such changes.</p> <p>2. The procedures required under point (c) of paragraph 1 shall provide for:</p> <p>(a) advance notice, with a clear time frame, that gives the opportunity to analyse and comment upon the impact of such proposed material changes; and</p> <p>(b) the comments referred to in point (a) of this paragraph, and the administrator's response to those comments, to be made accessible after any consultation, except where confidentiality has been requested by the originator of the comments.</p>
<p>Other general dispositions</p>	<p>CRD IV Article 161: From 2014, EBA shall, in cooperation with EIOPA and ESMA, publish a biannual report analysing the extent to which Member States' law refers to external credit ratings for regulatory purposes and the steps taken by Member States to reduce such references. Those reports shall outline how the competent authorities meet their obligations under Article 77(1) and (3) and Article 79(b). Those reports shall also outline the degree of supervisory convergence in that regard.</p> <p>CRR (9) Funding markets within the Union have become greatly fragmented as a result, which highlights the need to find an appropriate alternative to external ratings as one of criteria in prudential regulation to classify the liquidity and credit risk of covered bonds and other categories of assets. In accordance with Article 39b(1) of Regulation (EU) No 1060/2009 of the European Parliament and of the Council (2), the Commission must report by 31 December 2015 on alternative tools to credit ratings, with a view to deleting all references to credit ratings in Union law for regulatory purposes by 1 January 2020.</p>		