

## **German action plan to reduce overreliance on CRA ratings**

The German action plan to reduce overreliance on CRA ratings complements the respective actions being taken on EU level. It sets out additional measures and milestones for developing alternative credit risk assessment methods and for incentivising market participants to implement and use them in practice. Similar to the EU action plan it comprises of a multi-layer approach. This action plan builds on the – already existing – first layer which consists of legal provisions and administrative rules in (mostly EU) laws and German administrative guidance. These provisions and rules oblige market participants already now not to solely and mechanically rely on CRA ratings when assessing credit risk but to also use other methods and sources of information to form their proper individual creditworthiness opinion. Layer two shall then comprise fact-finding activities on the supervisory level in order to take stock of current relevant market practices. These activities may take the form of questionnaires sent to the supervised entities or of workshops with industry representatives which are intended to serve as a platform for information sharing on alternative credit risk assessment methods and potentially for spreading good practices and thus increasing transparency. Parallely, layer two shall especially contain a bi- and multilateral dialogue with, and on-site assessments of supervised entities both by audit firms and by supervisors during which the way how supervised entities practically comply with the newly introduced legal provisions will be critically assessed. Layer three shall be characterised by a supervisory assessment of all information on alternative assessment methods and approaches gathered by these means, the identification of good and best practices and the potential issuing of additional respective supervisory guidance.

Layer one has already been mostly implemented in the different supervisory areas. In the banking supervision area, a BaFin circular (Minimum Requirements for Risk Management / MaRisk) spells already clearly out that the use of CRA ratings does not exempt from forming an own internal creditworthiness opinion and from using additional available information such as e.g. business reports, prospectuses, general media, own analysis, credit spreads or proper critical review of external ratings. Compliance with these rules will be assessed during the 2014 on-site assessments. In the insurance supervision area, BaFin has already informed the market through its website and the “BaFin Journal” on BaFin’s ideas on using external ratings and making own credit risk assessments. Accordingly supervised entities are obliged to perform plausibility checks for standard ratings. In case the firms’ own assessment results in a rating which is equal to or worse than the external credit rating no further action shall be needed. In case the firms’ own assessment results in a better rating than the external credit rating supervised entities are expected to perform an additional quantitative assessment. Moreover supervised entities need to have policies in place already now which define their methods for assessing, treating and controlling their credit risk. In 2014 BaFin intends to develop additional alternative standards in order to reduce herding behavior. In the securities supervision area the managers of asset management companies are already subject to a requirement to have due diligence processes in place to internally assess and monitor credit and counterparty risk which are regularly checked and assessed by

BaFin. As to securities firms and broker dealers BaFin has issued a circular in 2013 which provides that there shall be no references to external credit ratings in product information sheets provided to retail clients by investment firms according to the German securities trading act. In 2014 BaFin intends to perform further stock taking activities and to hold a workshop in order to identify and promote good and best practices and potentially issue additional respective supervisory guidance.

All actions are described in detail in the annexed table format action plan.

## Annex I: Banks

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<b>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b>			
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending decisions.</i></p>			
a) Remove references to CRA ratings in laws and regulations relating to banks.	EU Commission/ Council/ Parliament	See EU response	See EU response

<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date</b> (e.g. “end-2014” or “one year after new international standards agreed”)</p>
<p>b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to banks.</p>	<p>EU Commission/ Council/ Parliament (for capital requirements - no national room for manoeuvre because CRR is immediately binding EU Regulation)</p>	<p>See EU response</p>	<p>See EU response</p>

<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date</b> (e.g. “end-2014” or “one year after new international standards agreed”)</p>
<p><b>2. Reducing market reliance on CRA ratings (Principle II)</b></p>			

<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date</b> (e.g. “end-2014” or “one year after new international standards agreed”)</p>
<p>a) Enhance supervisory processes and procedures to assess the adequacy of banks’ own credit assessment processes and incentivise market participants to develop internal risk management capabilities.</p>	<p>BaFin/Bundesbank</p>	<p>Overall requirements for an appropriate and effective risk managements are laid down in the circular “Minimum requirements on risk management” (MaRisk) which contains, amongst others, requirements for appropriate structural and operational arrangements in the credit business (which also cover credit risk in trading activities) and for appropriate processes for identifying, assessing, treating, monitoring and communicating credit risk. The structural and operational arrangements cover all relevant aspects of credit business like granting of loans, further processing of loans, monitoring of loan processing etc.</p> <p>According to chapter BTO 1.2 para.4 of the MaRisk, the use of external credit ratings does not exempt institutions from their obligation to form their own judgements of the respective credit/counterparty risk and to incorporate their own findings and information in the lending decision. Therefore 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 CRA forming their judgement etc.) to validate their own credit judgement. As a consequence ratings are just one of several criteria forming the lending decision.</p>	<p>Done</p>

<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date</b> (e.g. “end-2014” or “one year after new international standards agreed”)</p>
<p>b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.</p>	<p>BaFin (n/a for capital requirements because of immediately binding EU legislation)</p>	<p>n/a for capital requirements n/a for risk management</p>	<p>n/a for capital requirements n/a for risk management</p>

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<b>3.2 Prudential supervision of banks (Principle III.2)</b>			
a) Enhance supervisory oversight of banks to ensure they develop adequate internal credit assessment processes that avoid mechanistic reliance on CRA ratings (differentiating where appropriate between banks subject to the internal ratings-based (IRB), Standardised Approach of other capital regime).	BaFin/Bundesbank	IRB approach: no further action required because permission already requires that internal ratings and default and loss estimates used in the calculation of own funds requirements and associated systems and processes play an essential role in the risk management and decision-making process, and in the credit approval, internal capital allocation and corporate governance functions of the institution [cf. Article 144(1)(a) Regulation (EU) No 575/2013]  where using Standardised Approach: see requirements of the MaRisk	n/a for IRB approach  where using Standardised Approach, see requirements of the MaRisk
b) Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings.		see 2 a)	n/a for risk management



## Annex II: Central bank operations

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>3. Application of the basic principles to particular financial market activities (Principle III)</b>			
<i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing changes, including which areas are considered priorities, and the steps authorities intend to take to reduce reliance on CRA ratings in central bank policies and operations.</i>			
<b>3.1 Central bank operations (Principle III.1)</b>			
a) Reduce reliance on CRA ratings in central bank policies (such as investments, asset management frameworks, and conventional and unconventional operations), including the decision to accept or reject an instrument as collateral or for outright purchase and in determining haircuts.	I Eurosystem	I Monetary Policy Operations  With regard to the Eurosystem’s current reliance on external ratings against the background of FSB Principle III.1 for monetary policy operations, it is noted that, due to the very broad set of collateral which the Eurosystem accepts for credit operations, the elimination of external ratings entirely in the determination of an instrument’s eligibility would indeed be very challenging. Notwithstanding this, the reliance of the Eurosystem on CRA ratings or any other	

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		<p>credit assessment source is not automatic. The Eurosystem reserves the right to determine whether an issue, issuer, debtor or guarantor fulfils its requirements for high credit standards on the basis of any information it may consider relevant and may reject, limit the use of as-sets or apply supplementary haircuts on such grounds if required to ensure adequate risk protection of the Eurosystem in line with Article 18.1 of the Statute of the ESCB. Such measures can also be applied to specific counterparties, in particular if the credit quality of the counterparty appears to exhibit a high correlation with the credit quality of the collateral assets submitted by the counterparty. The Eurosystem can also apply positive discretion and waive the minimum credit rating threshold in certain situations where it has available information relevant for the credit risk assessment. Moreover, the Eurosystem refines its frameworks on an on-</p>	

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	II Bundesbank	<p>going basis inter alia to reduce any overreliance on external ratings.</p> <p>II Investment Operations</p> <p>Although CRA ratings play an important role in the assessment of credit risks resulting from investment operations certain features mitigate the risk of a mechanistic impact of ratings changes. Notably, the bulk of investments for the Bundesbank’s foreign exchange reserves is made on the basis of strategic decisions predominantly not based on CRA ratings. Also, CRA ratings are not the only condition for granting eligibility to counterparties, issuers or securities. In addition, the Bundesbank may at any time impose specific risk control measures or eligibility decisions not related to CRA ratings.</p>	

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b) Adjust policies for imposing risk control measures (including haircuts) on financial instruments to align with the FSB Principles on CRA ratings.		See a)	
c) Develop the central bank’s internal credit risk assessment capabilities and use of alternative measures of creditworthiness.	I Eurosystem	<p>I Monetary Policy Operations</p> <p>With regard to the concrete steps for further reducing reliance on CRA ratings, it is recalled that the assessment of the credit standards of eligible assets for Eurosystem monetary policy operations relies on the Eurosystem Credit Assessment Framework (ECAAF) which defines the procedures, rules and techniques to ensure that the Eurosystem’s high credit standards are met for all eligible assets. Within this framework, a number of steps are currently on-going which serve to further reduce reliance on external credit ratings: ECAAF due diligence procedures on CRAs’ ratings, rating processes and methodologies will be enhanced – an action plan in this regard is</p>	

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	II Bundesbank	<p>currently being elaborated. Moreover, the Eurosystem has amended eligibility criteria for ABS to introduce specific loan-by-loan information requirements for ABS accepted as collateral in Eurosystem credit operations. This will improve the transparency of these instruments towards the Eurosystem and help facilitate any independent risk assessment of these instruments. The loan level criteria are currently being phased-in with full compliance required by April 2014. It is also noted that, besides already existing systems of this kind at several National Central Banks (including Bundesbank), a number of National Central Banks are building In-house Credit Assessment Systems for non-financial corporations with the aim to have these operational in the next 1 – 2 years.</p> <p>II Investment Operations</p> <p>Against the background that the way CRA</p>	

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		<p>ratings are used has been a deliberate decision (weighing the significant costs of establishing comprehensive in-house rating capacities against the bank’s conservative approach in taking credit risk) and given the fact, that a mechanistic dependency from CRA ratings does not exist, it is currently not considered to change fundamentally the framework in place.</p> <p>However, CRA methodologies are monitored continuously to check whether the use of CRA ratings is still appropriate.</p> <p>CRA ratings are used to define eligibility thresholds and exposure limits for issuers, counterparties and financial instruments. However, external ratings are supplemented by additional information derived from market data and other public sources to evaluate the quality of issuers and counterparties.</p>	

### Annex III: Insurance/Reinsurance Companies<sup>1</sup>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<b>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b>			
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions.</i></p>			

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<sup>1</sup> Answers in this section should relate to the prudential regulation of insurance companies and reinsurance companies. Laws and regulations relating to insurance companies in their capacity as institutional investors should be included in the section entitled “Investment Funds Management.”

<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)</b></p>
<p>a) Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.</p>	<p>BaFin/State supervisory authorities</p>	<p>Changes of the Circular 4/2011 (VA) and in legislation that are necessary due to the EU CRA III Regulation are planned for 2014.</p> <p>As a prompt amendment of administrative practice is necessary due to the EU CRA III Regulation on June 2013, BaFin published relevant information (“Using external ratings and making own credit risk assessment”) in BaFin Journal 07/2013 and on BaFin’s website.</p> <p>Now discussions have taken place to specify the European commitments arising from the European Regulation (Article 5a EU CRA Regulation). Based on these results the insurance supervision published this relevant information on BaFin’s website in October 2013.</p>	<p>Done/2014</p>



<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)</b></p>
<p>b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations relating to insurance/reinsurance companies.</p>	<p>BaFin/State supervisory authorities</p>	<p>The relevant information, which was published on BaFin’s website in October 2013 (see Section 1a), includes the obligation that insurers have to make a plausibility check for investments, which have a standard market rating. If the own assessment leads to the same or a lower conclusion this plausibility check will meet the requirements regarding own credit assessment. If the own assessment leads to a better conclusion an additional quantitative assessment will be necessary. In 2014 the supervisory authority will develop additional alternative standards of credit assessment where needed. One option would be that the insurers have to make own credit assessments only for the largest debtors (for example the 10 largest).</p> <p>Pros:</p> <ul style="list-style-type: none"> <li>○ The EU CRA III Regulation is intended to reduce herding behaviour. Herding behaviour may occur wherever large proportion of the assets will be invested by many investors. Therefore it should be enough to assess only the largest investors.</li> <li>○ Principle of materiality</li> <li>○ Proper risk orientation</li> </ul>	<p>Done/end of 2014</p>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<b>2. Reducing market reliance on CRA ratings (Principle II)</b>			
<p>a) Enhance supervisory processes and procedures to assess the adequacy of insurers'/reinsurers' own credit assessment processes and incentivise market participants to develop internal risk management capabilities.</p>	<p>BaFin/State supervisory authorities</p>	<ul style="list-style-type: none"> <li>○ Carry out the examination of Internal Investment Guidelines: Already at present the insurance undertaking is obliged to prepare internal investment rules that specify its investment policy in greater detail. At a minimum, the following points must be defined: the methods used for assessing, treating and controlling the investment risk inherent in the relevant investment types. This also includes the credit risk. The supervisory authority checks the assessment and adequacy of insurers'/reinsurers' own credit assessment processes.</li> <li>○ Additional BaFin-Guidelines</li> </ul>	<p>Done/end of 2014</p>

<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)</b></p>
<p>b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes.</p>	<p>BaFin/State supervisory authorities</p>	<p>The insurance supervision is in regular contact with the insurance undertakings. For 2014 on-site visits are planned where these matters are addressed. The supervisory authority will subsequently report on these on-site visits.</p>	<p>2014</p>

**Annex IV: Investment Funds Management**  
**(including collective investment schemes, alternative investment schemes, occupational retirement schemes)**

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b>			
<i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.</i>			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<p>It may be possible that management companies of CIS (in the German regulation CIS include UCITS funds as well as alternative investment funds (AIF) such as hedge funds and private equity funds) introduce themselves references/eligibility criteria regarding CRA ratings into the fund rules. The German Kapitalanlagegesetzbuch (KAGB) requires that the fund rules must include among other things, the principles according to which the selection of the assets to be acquired occurs and, in particular, what types of assets may be acquired to what extent. Hence the law does not force to introduce references to ratings and also does not prohibit doing so. 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 in order to approve the fund rules.</p> <p>Based on the new EU Regulations and as an addition to Article 5a and Article 4 (1) of the REGULATION (EU) No 462/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 21 May 2013 amending Regulation (EC) No 1060/2009 an explicit prohibition of mechanistic reliance on ratings will be introduced in KAGB (sec. 29 (2a) KAGB) within the next months. More precisely, the new section states that a management company shall not solely or mechanistically rely on credit ratings issued by credit rating agencies as defined in Article 3(1)(b) of the CRA Regulation (EC) No 1060/2009. The new section furthermore requests that the BaFin monitors the adequacy of the credit assessment processes of the management companies and assess the use of references to credit ratings taking into account the nature, scale and complexity of the CIS’ activities and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings.</p>			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
a) Remove references to CRA ratings in laws and regulations for investment funds management.	EU Commission/ Council/ Parliament/ ESMA  German Parliament/ Federal Ministry of Finance/ BaFin	There is only one direct reference induced by CESR Guidelines on Money Market Funds which was transposed into national law (see Article 3 (3) and (4) of the Guideline on specifying fund categories in accordance with section 4 (2) of the KAGB). The reference relates to the eligibility criteria concerning the investments of money market funds. A money market fund will not be allowed to invest in money market instruments with a rating less than the two highest available ratings. However, it is clearly stated, that the management company must not solely rely on ratings but has to make its own determination on the quality of the instruments where rating is only one factor among others. Also, in February 2012, ESMA has published a Q&A on the Guidelines on Money Market Funds, which further specifies the position, that management companies should not place undue weight on the credit rating of instruments. Consequently there is no apparent need to remove the reference.	Done

<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date</b>  (e.g. “end-2014” or “one year after new international standards agreed”)</p>
<p>b) Develop alternative standards of credit assessment, where needed, for the purpose of replacing references to CRA ratings in laws and regulations for investment funds management.</p>	<p>BaFin</p>	<p>There is only one direct reference which needs no further assessment (see part a) above).</p>	<p>Done</p>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
2. Reducing market reliance on CRA ratings (Principle II)			



Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
a) Enhance supervisory processes and procedures to assess the adequacy of market participants’ own credit assessment processes.	BaFin	The German regulatory framework contains a general rule regarding due diligence and risk assessment applying to all CIS types and all management companies. BaFin has additionally issued a circular on minimum requirements for risk management of asset management companies. This circular describes due diligence procedures which have to apply to all new and all non–plain vanilla investments, where the structure of the products and inherent risks have to be analyzed. The circular also requires internal risk assessment and monitoring of credit or counterparty risks (among all other relevant risks). The management company has to rate/assess internally and monitors ongoing the quality of counterparties. 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.	Done

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
<b>3. Application of the basic principles to particular financial market activities (Principle III.3)</b>			
a) Establish, as appropriate, supervisory review of internal limits and investment policies of investment managers and institutional investors.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
a. Insurance companies (in their capacity as institutional investors)	BaFin/State supervisory authorities	When investing in investment funds, already at present the insurance undertakings must demonstrate to the supervisory authority in the course of their reporting that the general investment rules in section 54 (1) of the VAG have been complied with. In the case of investments in German and foreign special funds, compliance with the general investment rules must be demonstrated by reference to the investment guidelines and fund rules and, if applicable, to the sales prospectuses, in the case of German mutual funds by reference to the full prospectus and in the case of foreign mutual funds by submission of the full prospectus and the fund rules or the articles of association. In the case of German investment stock corporations, the full prospectus and the articles of association must be submitted (see Circular 4/2011 (VA) Section B.4.11.).	Done

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b. Investment managers (i.e. managers of collective investment schemes).	BaFin	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 in order to approve the fund rules. 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.	Done
c. Alternative investment managers (e.g. hedge funds, endowments).			
d. Managers of occupational retirement schemes.	BaFin/State supervisory authorities	For IORPs refer to the answer under a.	Done
b) Require changes to internal limits and investment policies.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
a. Insurance companies (in their capacity as institutional investors)	BaFin/State supervisory authorities	Discussions have taken place to specify the European commitments arising from the European Regulation (Article 5a CRA Regulation), see Section III.1.a. The relevant information, which was published on BaFin’s website in October 2013, includes the obligation that the insurance undertaking is obliged to ensure that the requirements regarding the use of ratings and own credit assessment are fully kept by the investment fund manager.	Done
b. Investment managers (i.e. managers of collective investment schemes).	BaFin	In case of an inadequate usage of CRA ratings, BaFin requests the asset management company to correct this usage by e.g. either adjusting the internal limits or the fund rules within a certain period of time.	Done
c. Alternative investment managers (e.g. hedge funds, endowments).			
d. Managers of occupational retirement schemes.	BaFin/State supervisory authorities	For IORPs refer to the answer under a.	Done

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
c) Incentivise compliance with the CRA Principles.			
a. Insurance companies (in their capacity as institutional investors)	BaFin/State supervisory authorities	The insurance supervision is in regular contact with the insurance undertakings. For 2014 on-site visits are planned where these matters are addressed. The supervisory authority will subsequently report on these on-site visits.	2014
b. Investment managers (i.e. managers of collective investment schemes).	BaFin	If the fund manager does not carry out the changes mentioned in part b), BaFin shall have power to issue	Done

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
c. Alternative investment managers (e.g. hedge funds, endowments).		all orders in the course of supervision which are necessary and appropriate to keep the business operations of an investment management company in accordance with the KAGB, the regulations issued on the basis of this Act and the fund rules or the articles of association. Furthermore and if necessary, BaFin may use administrative fines, revoke the license of the fund manager or instead of a revocation of the license, may demand the dismissal of the responsible managing directors and prohibit them from exercising their activities.	
d. Managers of occupational retirement schemes.	BaFin/State supervisory authorities	For IORPs refer to the answer under a.	2014
d) Strengthen supervisory oversight to assess whether investments managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers.			

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
a. Insurance companies (in their capacity as institutional investors)	BaFin/State supervisory authorities	For 2014 the supervisory authority plans to audit selected insurance undertakings.	2014
b. Investment managers (i.e. managers of collective investment schemes).	BaFin	At first instance, BaFin will assess whether investments managers have made changes to the role	Done



<p style="text-align: center;"><b>Action to be taken</b></p>	<p style="text-align: center;"><b>Responsible national authority</b></p>	<p style="text-align: center;"><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p style="text-align: center;"><b>Milestones and expected completion date</b>  (e.g. “end-2014” or “one year after new international standards agreed”)</p>
<p>c. Alternative investment managers (e.g. hedge funds, endowments).</p>		<p>that CRA ratings play through the review of the auditor reports and routine and non-routine on-site inspections.</p> <p>Usually, asset management companies supervised by the BaFin are inspected on an annual basis. These inspections include i.a. a review of the development in the last financial year, forecasts on the development in the future, discussion of the auditor report and other specific issues e.g. the role of CRA ratings. Whenever required BaFin also carries out non-routine on-site inspections. These inspections do not follow pre-prepared inspection plans, but are rather based on specific circumstances or problems.</p>	

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date  (e.g. “end-2014” or “one year after new international standards agreed”)
d. Managers of occupational retirement schemes.	BaFin/State supervisory authorities	For IORPs refer to the answer under a.	2014

## Annex V: Collateral Policies for Central Counterparties (CCPs)

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which CCPs should perform their own due diligence.</i></p>			
<p>CCPs located in the EU have to comply with EMIR. EMIR implements the CPSS-IOSCO PFMI (cf. rec. 90 of EMIR). EMIR requires application for re-authorisation of CCPs located in the EU by 15.09.2013. Re-authorisation (in process for CCPs located in Germany) is only granted on the basis of compliance with EMIR. EMIR includes anti-cyclical elements, notably with respect to margin requirements laid down in art. 41 (4) (5) of EMIR and art. 28 2) of the technical standards on requirements for central counterparties (COMMISSION DELEGATED REGULATION (EU) No 153/2013). Respective requirements have to be implemented by the CCP by the time of authorization according to EMIR and are subject notably to the supervision of a CCP’s risk management conducted by BaFin and Bundesbank.</p>			
<p><b>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b></p>			
<p>a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs.</p>	<p>EU Commission/ Council/ Parliament</p>	<p>See EU answer</p>	<p>See EU answer</p>

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to collateral policies for CCPs.	EU Commission/ Council/ Parliament	EMIR and respective level 2 standards are deemed to address the FSB standards on reducing reliance on CRA ratings.	Done
<b>2. Reducing market reliance on CRA ratings (Principle II)</b>			
a) Enhance supervisory processes and procedures to assess the adequacy of CCPs’ own credit assessment processes.	BaFin/Bundesbank	EU CCPs had to apply for re-authorisation according to EMIR by 15.09.2013. European CCPs are expected to comply with EMIR requirements. EMIR implements high standards e.g. on credit- and liquidity risk management or investment policy in line with the CPSS-IOSCO PFMI. Supervision and oversight is enhanced by the establishment of supervisory colleges.	Re-authorisation of CCPs according to EMIR by mid 2014.  Continuous ongoing supervision and enforcement on the basis of EMIR and the German Banking Act specifically with respect to a CCP’s risk management.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<b>3. Application of the basic principles to particular financial market activities (Principle III)</b>			
<b>3.1 Central counterparties and private sector margin agreements (Principle III.4a)</b>			
a) Conduct stress tests or estimate the procyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities.	BaFin/Bundesbank	As described, ratings are only one parameter with respect to a CCP’s risk management and thus could not themselves directly trigger significant changes in a CCP’s margin requirements.	Re-authorisation of CCPs according to EMIR by mid 2014.  Continuous ongoing supervision and enforcement on the basis of EMIR and the German Banking Act specifically with respect to a CCP’s risk management.
b) Assess the reliance on credit ratings in the investment policy of the CCP.	BaFin/Bundesbank	The reliance on credit ratings in the investment policy of the CCP is assessed in the general supervisory approach towards CCPs on the basis of EMIR, its delegated acts and the German Banking Act. This includes regular audits specifically of the CCP’s risk management	Re-authorisation of CCPs according to EMIR by mid 2014.  Continuous ongoing supervision and enforcement on the

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		as well as the notification of the CCP’s contractual framework namely on collateral and haircuts to the supervisor.	basis of EMIR and the German Banking Act specifically with respect to a CCP’s risk management.
c) Review private sector margin agreements to ensure compliance with the Principle.	BaFin/Bundesbank	Private sector margin agreements must comply with EMIR. The respective requirements are deemed to comply with the Principles (see above). Compliance with EMIR is reviewed in the re-authorisation process as well as in the ongoing supervision and oversight of CCPs.	Re-authorisation of CCPs according to EMIR by mid 2014;  Continuous ongoing supervision and enforcement on the basis of EMIR and the German Banking Act specifically with respect to a CCP’s risk management.
d) Require changes to private sector margin agreements.	BaFin	Private sector margin agreements must comply with EMIR. The respective requirements are deemed to comply with the Principles (see above). Compliance	Re-authorisation of CCPs according to EMIR by mid 2014.  Continuous ongoing

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		with EMIR is reviewed in the re-authorisation process as well as in the ongoing supervision and oversight of CCPs.	supervision and enforcement on the basis of EMIR and the German Banking Act specifically with respect to a CCP’s risk management.
e) Incentivise compliance with the CRA Principles.	BaFin	Private sector margin agreements must comply with EMIR. The respective requirements are deemed to comply with the Principles (see above). Compliance with EMIR is reviewed in the re-authorisation process as well as in the ongoing supervision and oversight of CCPs.	Re-authorisation of CCPs according to EMIR by mid 2014.  Continuous ongoing supervision and enforcement on the basis of EMIR and the German Banking Act specifically with respect to a CCP’s risk management.

**Annex VI: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt**

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes. Examples of incentives might include disclosure requirements relating to credit risk assessment practices.</i></p>			
<p><b>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b></p>			
<p>a) Remove references to CRA ratings in laws and regulations related to securities issuance.</p>	<p>EU Commission/ Council/ Parliament (EU Prospectus Regulation is directly applicable law)</p>	<p>There are no references to credit ratings in the national Securities Prospectus Act (Wertpapierprospektgesetz - WpPG). The securities prospectus law is fully harmonized at the European level. The content and format of prospectuses are set out in detail in EU Prospectus Regulation</p>	<p>For European law see EU response.  No references to CRA ratings in the national Securities Prospectus Act.</p>



Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
	German Parliament/ Federal Ministry of Finance/ BaFin	No. (EC) 809/2004.	
b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities issuance.	EU Commission/ Council/ Parliament/ ESMA (EU Prospectus Regulation is directly applicable law)  German Parliament/ Federal Ministry of Finance/ BaFin	Due to the fact that the EU prospectus law is fully harmonized European law, measures to reduce the role of ratings must be taken by European authorities.	For European law see EU response.  No references to CRA ratings in the national Securities Prospectus Act.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<b>2. Reducing market reliance on CRA ratings (Principle II)</b>			
a) Enhance supervisory processes and procedures to assess the adequacy of market participants own credit assessment processes.	BaFin	In the area of the securities prospectus law the supervisory activities are limited to a formal examination (Annexes I to XVII and Annexes XX to XXX of EU Prospectus Regulation No (EC) 809/2004. No checks are performed with respect to either the credit rating or the accuracy of the content of the prospectuses. Therefore there is no supervisory process and procedure to assess the adequacy of market participants own credit assessment processes.	For European law see also EU response.
<b>3. Application of the basic principles to particular financial market activities (Principle III)</b>			
<b>3.1 Central counterparties and private sector margin agreements (Principle III.5a)</b>			
a) Review the role of credit rating in disclosures by issuers of securities.	BaFin	CRA ratings are only one element to be provided in the prospectuses among others. The disclosure of a rating in the prospectus is only necessary for debt securities, if a rating has been assigned at the request or	For European law see also EU response.

Action to be taken	Responsible national authority	High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
		<p>with the co-operation of the issuer in the rating process. In addition, the issuer has to disclose, if the credit rating is issued by a credit rating agency which is registered in the European Union in accordance with CRA Regulation (EC) No 1060/2009.</p> <p>BaFin checks whether the aforementioned rating information is contained in the prospectus. BaFin does not check the content of the rating.</p>	
<p>b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take).</p>	<p>BaFin</p>	<p>The EU Prospectus Regulation No (EC) 809/2004 sets out the minimum disclosure requirements for securities prospectuses. Therefore it is not possible to omit or reduce a rating in the prospectus if the disclosure of the rating is necessary in accordance with the EU Prospectus Regulation 809/2004.</p> <p>Measures to reduce the role of ratings must be taken by European authorities, since the</p>	<p>For European law see also EU response.</p>

<p><b>Action to be taken</b></p>	<p><b>Responsible national authority</b></p>	<p><b>High-level description of approach to be taken, and necessary or contributory factors to assist implementation (e.g. changes in international standards)</b></p>	<p><b>Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)</b></p>
		<p>minimum disclosure requirements are imposed by European Regulation.</p>	

## Annex VII: Securities Firms (broker-dealers)

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<p><i>Based on the findings from the stock-taking exercise, please describe the areas identified as needing change and those areas considered priorities, as well as the steps authorities intend to take to reduce reliance on CRA ratings in laws and regulations. In addition, authorities should describe the incentives put in place for market participants to develop their own independent credit assessment processes.</i></p>			
<p>For securities firms subject to capital requirements according to CRR: see “Banks”</p>			
<p><b>1. Reducing reliance on CRA ratings in laws and regulations (Principle I)</b></p>			
<p>a) Remove references to CRA ratings in laws and regulations relating to securities firms.</p>	<p>EU Commission/ Council/ Parliament/ ESMA</p> <p>German Parliament/ Federal Ministry of Finance/ BaFin</p>	<p>For EU law see EU response</p> <p>There are no references to CRA ratings in purely national German laws and regulations relating to securities firms – no milestones to be met.</p> <p>BaFin issued circular on product information sheets for retail clients in summer 2013 in which BaFin expressly interdicts references to CRA ratings in such information sheets.</p>	<p>For EU law see EU response</p> <p>No references to CRA ratings in purely national German laws and regulations relating to securities firms – no national German action</p>

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
			necessary
<p>b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to securities firms.</p>	<p>EU Commission/ Council/ Parliament/ ESMA</p> <p>German Parliament/ Federal Ministry of Finance/ BaFin (as far as subject matter is not already covered by EU regulation)</p>	<p>For EU law see EU response</p> <p>There are no references to CRA ratings in purely national German laws and regulations relating to securities firms – no milestones to be met</p>	<p>For EU law see EU response</p> <p>No references to CRA ratings in purely national German laws and regulations relating to securities firms – no national German action necessary</p>

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
2. Reducing market reliance on CRA ratings (Principle II)			

Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
<p>a) Enhance supervisory processes and procedures to assess the adequacy of securities firms’ own credit assessment processes.</p>	<p>BaFin</p>	<p>(1) Stock-taking of existing market practices, methodologies and processes for alternative credit risk assessment</p> <p>(2) Based on stock-taking results: Identifying ‘good’ and ‘best practices’ for alternative credit risk assessments</p> <p>(3) Depending on results of stock-taking exercise: Incentivise market participants to develop/make use of alternative credit risk assessment methods</p>	<p>(1) Sending questionnaire to market participants and organise a work shop for market participants [Q4/2013 / Q1/2014]</p> <p>(2) Assessment of results of stock-taking exercise [Q1/ 2014]</p> <p>(3) Making potential ‘good’ and ‘best practices’ for alternative credit risk assessments public [Q2/2014]</p> <p>AND</p>



Action to be taken	Responsible national authority	Milestones to be met (e.g. changes in international standards)	Milestones and expected completion date (e.g. “end-2014” or “one year after new international standards agreed”)
			eventually integrate ‘good’ and ‘best practices’ for alternative credit risk assessments into BaFin guidance [Q2/2014]