# UK Action Plan to reduce reliance on CRA Ratings

The UK strongly supports the implementation of the Financial Stability Board's (FSB) *Principles to Reduce Reliance on CRA Ratings*, and the roadmap agreed by the G20. To that end, this action plan sets out the measures already taken, or in train, by the UK authorities to reduce mechanistic reliance on CRA ratings. This action plan is supplemental to, and should be read in conjunction with, the joint EU Action Plan, as the UK is subject to the EU regulatory framework and important regulatory changes have been undertaken in the EU to ensure compliance with the FSB Principles. The UK will continue to be closely involved in international initiatives related to reducing mechanistic reliance on CRA ratings.

The Action Plan consists of the following sections:

- Annex I: Banks
- Annex II: Central bank operations
- Annex III: Insurance/reinsurance
- Annex IV: Investment firms
- Annex V: Collateral Policies for CCPs
- Annex VII: Securities issuance
- Annex VIII: Securities firms

# 1. 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **1.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle 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.*** | | | |
| a) Remove references to CRA ratings in laws and regulations relating to banks. | EU Commission / Council / Parliament (by virtue of CRD IV / CRR, CRA III and other EU laws and regulations) | See EU response. | See 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| 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. | EU Commission / Council / Parliament (by virtue of CRD IV / CRR, CRA III and other EU laws and regulations)<br><br>EBA (through technical standards and guidelines) | See EU response. | See 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
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| **1.2. 2. Reducing market reliance on CRA ratings (Principle II)** | | **1.3.** | **1.4.** |
| 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. | EU Commission/ EBA<br><br>PRA | See EU response. Banks regulated by the PRA using the IRB Approach may not rely solely on external ratings. The Risk Specialist Division at the PRA undertakes Technical Risk Reviews (TRRs) on PRA regulated firms in support of Supervision. TRRs cover, amongst other things, commercial and business risks, risk management competence, models, stress and scenario testing and it is through these reviews that the PRA checks the adequacy of our banks' credit assessment processes. | See EU response.<br><br>Processes already in place. |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes. | PRA | Responding to recommendations by Bank of England Financial Policy Committee (FPC), the PRA is assessing 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 credit rating agencies.<br><br>The PRA is also ensuring that banks meet the disclosure recommendations of the Enhanced Disclosure Task Force in their 2013 annual report, including those on better credit risk disclosures including their significance in the context of regulatory capital and risk-weighted assets and in the wider context of credit risk management and financial reporting. To address the FPC recommendation we have been establishing with banks (individually and via the British Banking Association), and informing their auditors, what improvements will be made in the 2013 year end statements to ensure the EDTF recommendations are met in a high quality way. | March 2014<br><br>Q2 2014 |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| *1.4.1. 3.2 Prudential supervision of banks (Principle III.2)* | | *1.4.2.* | *1.4.3.* |
| 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). | EU Commission / Council / Parliament and EBA (by virtue of CRD IV / CRR and CRA III)<br><br>PRA | CRA III (as described in the EU response) requires all financial institutions to make their own risk assessments and to not solely or mechanistically rely on credit ratings.<br><br>The PRA requires banks regulated by it 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. | See EU response.<br><br>PRA Rulebook, Internal Capital Adequacy Assessment 4.1 to 4.4. |
| b) Revise CRA ratings in other prudential supervisory policies (e.g. relating to liquidity requirements) to reduce reliance on CRA ratings. | PRA | See response to 2 a) above. National discretions may be constrained by applicable laws (eg. relating to liquidity requirements prescribed by EU law). | |

## 2. 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **2.1. 3. Application of the basic principles to particular financial market activities (Principle III)** | | | |
| ***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.*** | | | |
| In 2012, the Bank of England completed a comprehensive review of its use of CRA ratings in its operations. Following this (in the same year), it removed all mechanistic references to credit ratings in the documents relating to the Bank's operations (known as the 'Red Book') and as such, no further concrete action is planned. The Bank of England's Risk Management Division has consequently expanded considerably in order to be able to undertake in-house credit analysis of a wide range of counterparties, issuers and private sector collateral. While the Bank aims to continually improve its risk management capabilities, no specific further actions are planned at this time. | | | |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| *2.1.1. 3.1 Central bank operations (Principle III.1)* | | | |

| 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) 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. | Bank of England | For **monetary policy and reserves management** purposes, when considering whether or not to accept an instrument as collateral or purchase it outright, the Bank of England considers a number of factors, including selected financial information, market indicators and credit ratings. There is no mechanistic link between a credit rating and a security's eligibility in the Bank's operations. However, the Bank does use external ratings to give a guide to market participants of the approximate credit quality we require.<br><br>Under the ISDA agreement, the Bank requires that any collateral called under the CSA shall be sovereign collateral with 'a long-term debt rating by at least two CRAs (both domestic and foreign currency) of Aa3 (or equivalent) or higher.' However, this is not a legal agreement that is used in our official monetary or financial stability.<br><br>Trading counterparties are rated on an internal scale using something akin to a CAMELS model (that considers capital, asset quality, market indicators (such as CDS spreads and CRA ratings), profitability, funding and liquidity; and business and strategy) to inform the judgment of a credit committee drawn from operational and policy areas of the Bank. These internal ratings then determine the size and maturity limits for trading with these counterparties. | Completed |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
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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. | Bank of England | The Bank of England imposes various risk controls, including haircuts, on eligible collateral. None of these risk controls are mechanistically linked to CRA ratings. | Completed |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| c) Develop the central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness. | Bank of England | Prior to the financial crisis, CRA reports were a key input into the Bank's internal credit assessment of counterparties and securities issuers. The Bank has been undertaking continuous improvement to its credit assessment process, which now sees its undertaking a more in-depth review of counterparty's balance sheets and a use of market indicators (e.g. CDS spreads, equity prices, CRA ratings), combined with counterparty visits and teleconferences to develop our understanding of their business models. As a consequence, the number of analysts on the Credit Risk Team has increased.<br><br>The Bank of England has also developed a thorough due diligence process for assessing the eligibility and riskiness of loan collateral. This uses extensive data sets to inform our credit judgement of the portfolio and calculate an advance rate.<br><br>The Bank has a model for determining haircuts on private sector collateral that generates estimates of probability of default and loss given default in severe macroeconomic conditions. These are then used to calculate the discounted value of cash flows and the resultant haircut. However, the Bank retains the right to add on additional haircuts e.g. for FX risk, concentration risk, other factors not captured by the model. | Completed |

## 3. ANNEX III: INSURANCE/REINSURANCE COMPANIES[1]

| 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") |
|---|---|---|---|
| **3.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle 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.*** | | | |

[1] 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."

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| See EU response.<br><br>The PRA has been part of the EIOPA working group on the subject matter and have steered other Implementing Technical Standards and Guidelines to minimize mechanistic reliance on ratings. The PRA will continue<br>- To contribute to properly shaping the forthcoming European prudential regime on insurance and reinsurance undertakings, Solvency II (Directive 2009/138/EC)<br>- To support this important joint ESAs work stream<br>- To ensure that the development of ITSs minimizes the reliance on external ratings and that the appropriate mitigants are in place to avoid any negative affects driven by a mechanistic reliance on those ratings (e.g. cliff-edge effect) would such a case persist. | | | |
| a) Remove references to CRA ratings in laws and regulations relating to insurance/reinsurance companies. | Commission based on technical advice from EIOPA | See EU response. | See EU response. |
| 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. | EIOPA | See EU response. | See 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **3.2. 2. Reducing market reliance on CRA ratings (Principle II)** | | **3.3.** | **3.4.** |
| 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. | EIOPA | See EU response. | |
| b) Require or incentivise market participants to disclose information about their internal credit risk assessment processes. | EIOPA | See EU response. | |

## 4. ANNEX IV: INVESTMENT FUNDS MANAGEMENT

## 5. (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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| **5.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle 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.*** | | | |
| Commission Directive 2013/14/EU amended the following other Directives as indicated:<br><br>Directive 2003/41/EC (Institutions for Occupational Retirement Pensions Directive) was amended in article 18, adding paragraph 1a:<br><br>Taking into account the nature, scale and complexity of the activities of the institutions supervised, Member States shall ensure that the competent authorities monitor the adequacy of the institutions' credit assessment processes, assess the use of references to credit ratings issued by credit rating agencies as defined in Article 3(1)(b) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, in their investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings.<br><br>Directive 2009/65/EC (UCITS Directive) was amended in article 51: following paragraphs are added:<br><br>"A management or investment company shall employ a risk-management process which enables it to monitor and measure at any time the risk of the positions and their | | | |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
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| contribution to the overall risk profile of the portfolio of a UCITS. In particular, it shall not solely or mechanistically rely on credit ratings issued by credit rating agencies as defined in Article 3(1)(b) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, for assessing the creditworthiness of the UCITS' assets."<br><br>"Taking into account the nature, scale and complexity of the UCITS' activities, the competent authorities shall monitor the adequacy of the credit assessment processes of the management or investment companies, assess the use of references to credit ratings, in the UCITS' investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings."<br><br>In addition a paragraph is added, requiring that criteria for assessing the adequacy of the risk-management process employed by the management or investment company ensure that these entities are prevented from relying solely or mechanistically on credit ratings for assessing the creditworthiness of the UCITS' assets.<br><br>Directive 2011/61/EU (AIFM Directive) was amended in article 15 adding following paragraphs:<br><br>Alternative Investment Fund Managers (AIFMs) shall implement adequate risk-management systems in order to identify, measure, manage and monitor appropriately all risks relevant to each Alternative Investment Fund (AIF) investment strategy and to which each AIF is or may be exposed. In particular, AIFMs shall not solely or mechanistically rely on credit ratings issued by credit rating agencies as defined in Article 3(1)(b) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, for assessing the creditworthiness of the AIFs' assets.<br><br>Taking into account the nature, scale and complexity of the AIFs' activities, the competent authorities shall monitor the adequacy of the credit assessment processes of AIFMs, assess the use of references to credit ratings, in the AIFs' investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings.<br><br>The measures specifying the risk-management systems shall ensure that the AIFMs are prevented from relying solely or mechanistically on credit ratings, for assessing | | | |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| the creditworthiness of the AIFs' assets. | | | |
| a) Remove references to CRA ratings in laws and regulations for investment funds management. | HMT / FCA / DWP | As stated above, the main pieces of EU legislation governing collective fund management have been amended to avoid mechanistic reliance on credit ratings. National action needs to be taken to transpose these requirements.<br><br>In addition, the Joint Committee of European Supervisory Authorities has proposed an amendment to CESR's/ESMA's guidelines on Money Market Funds to remove mechanistic reliance on credit ratings.<br><br>Finally, the European Commission have proposed a new money market funds regulation, which would apply to all such funds (whether UCITS or AIFs). As proposed, this bans the manager of an MMF from soliciting or financing a credit rating for the MMF | By 21 December 2014 (Directive amendments)<br><br>Joint Committee consultation closed 5/12/13. Action expected Q1 2014<br><br>Commission MMF proposal has not yet been debated in the European Council. This process may commence in Q1 2014 |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| 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. | | Generally, this would be up to the industry in compliance with the law. However the proposed Commission regulation on money market funds contains detailed requirements on the characteristics of a manager's internal ratings and assessment procedure. | Commission MMF proposal has not yet been debated in the European Council. This process may commence in Q1 2014 |
| **5.2. 2. Reducing market reliance on CRA ratings (Principle II)** | | **5.3.** | **5.4.** |
| a) Enhance supervisory processes and procedures to assess the adequacy of market participants' own credit assessment processes. | National Sectorial Competent Authorities | The CRA III package contains an amendment of Directive 2003/41/EC on Investments in Occupational Pensions, Directive 2009/65/EC on UCITS and Directive 2011/61/EU requirering competent authorities to monitor adequacy of adequacy of ownc credit risk assessment processes of the supervised entities | 18 months after entry into force on May 21 June 2013 |
| **5.5. 3. Application of the basic principles to particular financial market activities (Principle III.3)** | | | |
| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| a. Insurance companies (in their capacity as institutional investors) | | See answer point 5.3 | |
| b. Investment managers (i.e. mangers of collective investment schemes). | | See answer point 5.3 | |
| c. Alternative investment managers (e.g. hedge funds, endowments). | | See answer point 5.3 | |
| d. Managers of occupational retirement schemes. | | See answer point 5.3 | |
| b) Require changes to internal limits and investment policies. | | | |
| a. Insurance companies (in their capacity as institutional investors) | | | |
| b. Investment managers (i.e. mangers of collective investment schemes). | | | |
| c. Alternative investment managers (e.g. hedge funds, endowments). | | | |
| d. Managers of 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<br><br>(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) | | See answer point 5.1 a) & b) | |
| b. Investment managers (i.e. mangers of collective investment schemes). | | See answer point 5.1 a) & b) | |
| c. Alternative investment managers (e.g. hedge funds, endowments). | | See answer point 5.1 a) & b) | |
| d. Managers of occupational retirement schemes. | | See answer point 5.1 a) & b) | |
| 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. | | | |
| a. Insurance companies (in their capacity as institutional investors) | | See answer point 5.3 | |
| b. Investment managers (i.e. mangers of collective investment schemes). | | See answer point 5.3 | |
| c. Alternative investment managers (e.g. hedge funds, endowments). | | See answer point 5.3 | |

| 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<br><br>(e.g. “end-2014” or “one year after new international standards agreed”) |
|---|---|---|---|
| d. Managers of occupational retirement schemes. | | See answer point 5.3 | |

## 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| ***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.*** | | | |
| See EU answer. | | | |
| **1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| a) Remove references to CRA ratings in laws and regulations relating to collateral policies for CCPs. | There are no such references in UK legislation or regulation.<br><br>Please see EU answer with regard to EU laws | Please see EU answer. | Please see EU answer. |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| | and regulation. | | |
| 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. | Please see EU answer. | Please see EU answer. | Please see EU answer. |
| **2. Reducing market reliance on CRA ratings (Principle II)** | | | |
| a) Enhance supervisory processes and procedures to assess the adequacy of CCPs' own credit assessment processes. | Bank of England | The European Market Infrastructure Regulation (EMIR) requires CCPs' assessments of collateral eligibility to require internal credit assessments.<br><br>Aside from collateral, CCPs have to assess the acceptability of potential (potential members, interoperable CCPs and investment counterparties). For this, CCPs have their own internal credit assessments, which include several factors including capital and liquidity ratios and profitability. CRA ratings are only one input into these. Therefore, for their counterparty assessments in these areas CCPs | All UK CCPs are currently applying for re-authorisation under EMIR.<br><br>The Bank of England will supervise UK CCPs to ensure compliance with EMIR on an on-going basis. |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| | | are not relying on CRAs' ratings. | |
| **3. Application of the basic principles to particular financial market activities (Principle III)** | | | |
| *3.1 Central counterparties and private sector margin agreements (Principle III.4a)* | | | |
| 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. | Bank of England | As noted above, ratings are only one parameter with respect to a CCP's assessment of collateral eligibility. Accordingly a credit downgrade could not of itself directly trigger significant changes in a CCP's margin requirements. | All UK CCPs are currently applying for re-authorisation under EMIR.<br><br>The Bank of England will supervise UK CCPs to ensure compliance with EMIR on an on-going basis |
| b) Assess the reliance on credit ratings in the investment policy of the CCP. | Bank of England | The same requirement for non-reliance on CRAs is placed on CCPs' assessments of collateral acceptability for investment purposes as for collateral acceptability for margin requirements. Accordingly, please see the answer for 2a). | All UK CCPs are currently applying for re-authorisation under EMIR.<br><br>The Bank of England will supervise UK CCPs to |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| | | | ensure compliance with EMIR on an on-going basis |
| c) Review private sector margin agreements to ensure compliance with the Principle. | | | |
| d) Require changes to private sector margin agreements. | | See answer above. | |
| e) Incentivise compliance with the CRA Principles. | | See answer above. | |

**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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| ***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.*** | | | |
| Prospectus Directive: Directive 2010/73/EU there are no specific references to credit ratings.<br><br>Regulation 809/2004 introduces a requirement for an issuer to disclosure in the prospectus of a credit rating (of the issuer and/or of debt securities) when available. Furthermore, the issuer would need to complement the prospectus if the credit rating is changed during the offer period, following an assessment made on a case by case basis by the national competent authority responsible for the approval of the prospectus.<br><br>However, the approach outlined in Regulation 804/2004 is not considered as sole and mechanistic reliance on credit ratings<br><br>The main step taken is the general revision under CRA III Regulation, requiring the Commission to review 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. | | | |
| **5.6. 1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| a) Remove references to CRA ratings in laws and regulations related to securities issuance. | Commission based on technical advice | The general obligation in the CRA III requires the Commission, based on technical advice from ESMA, to submit a report to the European | Report end 2015/ completion 2020 |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| | from ESMA | 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. This obligation covers the use of external rating ratings in laws and regulations relating to securities issuance.<br><br>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. | |
| b) Develop alternative standards of credit assessment, where necessary, for the purpose of replacing references to CRA ratings in laws and regulations relating to | | | |

| 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| securities issuance. | | | |
| **5.7. 2. Reducing market reliance on CRA ratings (Principle II)** | | **5.8.** | **5.9.** |
| a) Enhance supervisory processes and procedures to assess the adequacy of market participants own credit assessment processes. | | | |
| **5.10. 3. Application of the basic principles to particular financial market activities (Principle III)** | | | |
| 5.10.1. *3.1 Central counterparties and private sector margin agreements (Principle III.5a)* | | | |
| a) Review the role of credit rating in disclosures by issuers of securities. | | 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.<br><br>The UK Listing Authority (part of the UK Financial Conduct Authority) reviews prospectuses to verify that, where applicable, credit ratings assigned to the relevant issuer/debt security have been disclosed in line with 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
| --- | --- | --- | --- |
| | | requirements described above.<br><br>The Prospectus Regulation is directly applicable European legislation. As the Prospectus Directive regime is generally a maximum harmonisation regime the UKLA/FCA is not able to either gold-plate or ignores these requirements. | |
| b) Reduce the role of credit ratings in disclosures by issuers of securities (list the steps to take). | | | |

## 6. 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<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| ***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.*** | | | |
| | | | |
| **6.1. 1. Reducing reliance on CRA ratings in laws and regulations (Principle I)** | | | |
| a) Remove references to CRA ratings in laws and regulations relating to securities firms. | Commission based on technical advice from ESMA | The general obligation in the CRA III requires the Commission, 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 | Report end 2015/ completion 2020 |

| Action to be taken | Responsible national authority | Milestones to be met (e.g. changes in international standards) | Milestones and expected completion date<br><br>(e.g. "end-2014" or "one year after new international standards agreed") |
|---|---|---|---|
| | | regulatory purposes by 1 January 2020, subject to appropriate alternatives being identified and implemented. This obligation covers the use of external rating ratings in laws and regulations relating to securities firms. | |
| 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. | | | |