Second Questionnaire on Other CRA Products:

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BVI[1] gladly takes the opportunity to present its views on the use of other CRA products. Our members are investment management companies and asset managers (such as investment firms) providing management services to regulated and supervised collective investment undertakings such as UCITS or AIF under the European UCITS Directive 2009/65/EC or the AIFM Directive 2011/61/EU. Therefore, our answers are from the viewpoint of investment management companies and investment firms.

As a general statement, other CRA products are useful and could be reliable quantitative and qualitative indicators to assess the financial market developments. In our view, there is no need for further regulatory measures to stimulate competition between CRAs or other providers of such products or services. We believe that competition between CRAs and the quality their ancillary services can be increased by a strict supervisory practice. In particular, there should be a focus on CRA ancillary services, especially rating data feeds, in order to discourage anti-competitive behavior. Competent authorities should therefore monitor all registered CRAs as part of their ongoing supervision that they properly incorporate the requirements and the objectives of the CRA Regulation into their working practices and remove any practices and procedures which conflict with these. Specifically, the (re-)use of CRA ratings and other CRA products in regulatory reporting free of license and fee requirements needs to be insured. Furthermore, regulators need to discourage unreasonable license and fee requests from quasi-monopolistic CRA and index providers for ratings, indicators or other services.

Moreover, with regard to research, there is a need to monitor the developments in connection with the legal requirements of the European Markets in Financial Instruments Directive (MiFID). Competent Authorities and regulators should take into account the existing market practices developed in the different states in order to deal with conflicts of interests by disclosure of types of research received and the main counterparties. In addition, firms should be required to set up a policy for fair and practicable allocation of costs to each portfolio/fund.

[1] BVI represents the interests of the German investment fund and asset management industry. Its 90 members manage assets in excess of EUR 2.6 trillion in UCITS, AIFs and assets outside investment funds. As such, BVI is committed to promoting a level playing field for all investors. BVI members manage, directly or indirectly, the assets of 50 million private clients over 21 million households. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

In this context, we would like to answer IOSCO's questions as follows:

Question 1: Please list the Other CRA Products that you or your organization use and receive from credit rating agencies or any of their affiliates, partnerships, joint ventures or other combinations, including their affiliated entities, whether or not any such entities are registered or licensed with any regulatory or governmental body (collectively, CRAs), or from any other organization that is not necessarily a CRA.

Our members use and receive other CRA rating products, including but not limited to:

- "indicative ratings",
- "scoring",
- "credit default swap spreads",
- "bond indexes",
- "portfolio assessment tools",
- "credit assessments",
- "rating assessments",
- "assessments",
- "fund ratings",
- "data feeds" or "research" or other tools which may be used for a person's or organization's own risk assessments (for example, quantitative models and enterprise risk solutions software)

Question 2: Which function, area or group within your organization uses the other CRA Products? How are the other CRA Products used and what is their purpose? What are the main features of the Other CRA Products?

Our members refer to other CRA products to the following business processes:

- The fund managers use the other CRA Products. They monitor some of these products for some asset classes and make use of potential investment opportunities. The main feature is the specific assessment of investment opportunities.
- Definition of fixed income asset categories in which they invest (e.g. other CRA products are used to map market-data like specific spreads for market-risk-calculation of fixed-income instruments)
- Implementing the investment process on the basis of the risk limits specified by risk management function
- Management, limitation and monitoring of issuer risks, counterparty risk or investment limits
- Measurement and limitation of relevant risks.

Question 3: Are any of the Other CRA Products offered by the CRAs or other entities custom made for your organization?

In principal, the data are available from the main data providers such as Bloomberg or specialized data vendors such as index providers or directly from the data companies associated with the credit rating agencies.

Question 4: Do you use the Other CRA Products instead of, in combination with or to supplement the information provided by Traditional Credit Ratings?

Our members use the other CRA products mostly in combination with the information provided by traditional credit ratings.

Question 5: Do you use the Other CRA Products (for example, credit default swap spreads, bond indexes, score cards, portfolio assessment tools, among others) to assess or verify the performance or accuracy of a Traditional Credit Rating?

The fund managers use these products to close information gaps and to identify most recent market developments.

Question 6: Is the increased availability of large volumes of financial data changing how creditworthiness and credit risks are assessed in your industry? Do you see any developing trends?

In general, the increased availability of large volumes of financial data is influencing the assessment of creditworthiness and credit risks of financial instruments or entities. The large volumes show the diversity of qualitative and quantitative valuations. This leads to increased requirements on handling the large data volumes regarding e.g. the actuality and the validity and also on human capital for managing and using the data. The volumes and the time of the data availability will be used to develop early forecasts of creditworthiness and accurate assessment of credit risks. The asset management area is developing tools to cope with the increased digitalization of the industry in terms of cloud computing, advanced analytics, mobile computing and robo-advice.

In particular, investment management companies are obliged to ensure a high standard of diligence in the selection and ongoing monitoring of investments, in the best interests of the investors of the fund and the integrity of the market. In principle, our members use other CRA products as only one parameter when making their investment decisions. They may only make decisions, if they have the appropriate professional expertise and knowledge of the assets in which investment funds are invested. They have to ensure that the managed fund is only invested in financial assets whose risks can be adequately assessed, monitored and managed by the risk management process adopted by the company. In order to ensure that investment decisions are carried out in compliance with the set investment strategy and risk limits of the investment fund. Investment management companies have to establish and implement written policies and procedures on due diligence. Moreover, before carrying out investments, management companies are obliged to take into account (where appropriate) the nature of the foreseen investment, formulate forecasts and perform analyses concerning its contribution to the fund's portfolio composition, liquidity and risk and reward profile. These analyses are supported by reliable, updated and meaningful information, both in quantitative and qualitative terms.

The individual assessment of creditworthiness of financial instruments or entities is part of the overall risk-management process of the investment management company and serves as a principle against over-reliance on credit ratings. This process involves, in the light of the principle of proportionality, the assessment of any risk of each relevant assets invested by the investment funds (including the creditworthiness) and the establishment of an internal risk limit system for any relevant risk (including credit risk) on asset and fund level. In practice, the risk management function is obliged to establish and implement quantitative or qualitative risk limits, or both, for each investment fund managed by the investment management company, taking into account all relevant risks. These include credit risks. Moreover, investment management companies may only deal with counterparties for which a counterparty limit system is in place (including in relation to the creditworthiness of the contracting party and the group membership). All transactions with a counterparty count in their full amount towards the (credit risk) limit on fund level or company level. Moreover, investment management companies are obliged to define limits for cash positions at banks in view of their creditworthiness and group membership.