

- ร่าง -

ประกาศคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์

ที่ กข. /2561

เรื่อง การกำหนดให้การประกอบธุรกิจของสถาบันจัดอันดับ

ความน่าเชื่อถือไม่เป็นการประกอบธุรกิจหลักทรัพย์

ประเภทการเป็นที่ปรึกษาการลงทุน

(ฉบับที่ )

อาศัยอำนาจตามความในมาตรา 4 และมาตรา 14 แห่งพระราชบัญญัติหลักทรัพย์และตลาดหลักทรัพย์ พ.ศ. 2535 ซึ่งแก้ไขเพิ่มเติมโดยพระราชบัญญัติหลักทรัพย์และตลาดหลักทรัพย์ (ฉบับที่ 4) พ.ศ. 2551 คณะกรรมการ ก.ล.ต. ออกประกาศไว้ดังต่อไปนี้

ข้อ 1 ให้ยกเลิกความในข้อ 3 แห่งประกาศคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์ ที่ กข. 1/2555 เรื่อง การกำหนดให้การประกอบธุรกิจของสถาบันจัดอันดับความน่าเชื่อถือไม่เป็นการประกอบธุรกิจหลักทรัพย์ประเภทการเป็นที่ปรึกษาการลงทุน ลงวันที่ 20 กุมภาพันธ์ พ.ศ. 2555 และให้ใช้ความต่อไปนี้แทน

“ข้อ 3 ในประกาศนี้

“การจัดอันดับความน่าเชื่อถือ” หมายความว่า การประเมินฐานะและความสามารถของรัฐบาล กระทรวง ทบวง กรม หรือกิจการใด ๆ ในการชำระคืนหนี้ตามตราสารใดตราสารหนึ่ง หรือการชำระหนี้คืนทั้งหมด หรือการปฏิบัติตามภาระผูกพันตามหุ้นบุริมสิทธิ และแสดงผลการประเมินด้วยการให้สัญลักษณ์

“สถาบันจัดอันดับความน่าเชื่อถือ” หมายความว่า ผู้ซึ่งประกอบธุรกิจการจัดอันดับความน่าเชื่อถือเป็นทางค้าปกติ

“ตราสารหนี้” หมายความว่า พันธบัตร หุ้นกู้ ตั๋วเงิน และให้หมายความรวมถึงลูก

“ผู้บริหาร” หมายความว่า ผู้จัดการ หรือผู้ดำรงตำแหน่งระดับบริหารที่รายชื่อราย  
นับต่อจากผู้จัดการลงมา ผู้ซึ่งดำรงตำแหน่งเทียบเท่ากับผู้ดำรงตำแหน่งระดับบริหารรายชื่อที่รายชื่อราย  
และให้หมายความรวมถึงผู้ดำรงตำแหน่งระดับบริหารที่รับผิดชอบในสายงานเกี่ยวกับการจัดอันดับ  
ความน่าเชื่อถือที่เป็นระดับผู้จัดการฝ่ายขึ้นไปหรือเทียบเท่า

“บริษัทใหญ่” หมายความว่า บริษัทใหญ่ตามประกาศคณะกรรมการกำกับหลักทรัพย์  
และตลาดหลักทรัพย์ว่าด้วยการกำหนดบทนิยามในประกาศเกี่ยวกับการออกและเสนอขายตราสารหนี้  
ทุกประเภท”

ข้อ 2 ให้ยกเลิกความในข้อ 13 แห่งประกาศคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์ ที่ กช. 1/2555 เรื่อง การกำหนดให้การประกอบธุรกิจของสถาบันจัดอันดับความน่าเชื่อถือไม่เป็นการประกอบธุรกิจหลักทรัพย์ประเภทการเป็นที่ปรึกษาการลงทุน ลงวันที่ 20 กุมภาพันธ์ พ.ศ. 2555 และให้ใช้ความต่อไปนี้แทน

“ข้อ 13 สถาบันจัดอันดับความน่าเชื่อถือที่ได้รับความเห็นชอบตามหมวดนี้ ต้องดำเนินการให้เป็นไปตามหลักปฏิบัติในการประกอบธุรกิจการจัดอันดับความน่าเชื่อถือ (Code of Conduct Fundamentals for Credit Rating Agencies) ที่กำหนดโดย International Organization of Securities Commissions (IOSCO)”

ข้อ 3 ให้ยกเลิกข้อ 14 ข้อ 15 ข้อ 16 ข้อ 17 และข้อ 18 แห่งประกาศคณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์ ที่ กช. 1/2555 เรื่อง การกำหนดให้การประกอบธุรกิจของสถาบันจัดอันดับความน่าเชื่อถือไม่เป็นการประกอบธุรกิจหลักทรัพย์ประเภทการเป็นที่ปรึกษาการลงทุน ลงวันที่ 20 กุมภาพันธ์ พ.ศ. 2555

ข้อ 4 ประกาศนี้ให้ใช้บังคับตั้งแต่วันที่

เป็นต้นไป

ประกาศ ณ วันที่

(นายวรวิทย์ จำปีรัตน์)

ประธานกรรมการ

คณะกรรมการกำกับหลักทรัพย์และตลาดหลักทรัพย์

**CODE OF CONDUCT FUNDAMENTALS  
FOR CREDIT RATING AGENCIES**



**OICJ-IOSCO**

**THE BOARD  
OF THE  
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS**

**REVISED MARCH 2015**

## CODE OF CONDUCT FUNDAMENTALS FOR CREDIT RATING AGENCIES

### INTRODUCTION

In September 2003, IOSCO's Technical Committee published a Statement of Principles Regarding the Activities of Credit Rating Agencies (the "IOSCO CRA Principles").<sup>1</sup> The IOSCO CRA Principles were designed to be a useful tool for securities regulators, credit rating agencies ("CRAs"), and others wishing to articulate the terms and conditions under which CRAs operate and the manner in which opinions of CRAs should be used by market participants. The IOSCO CRA Principles address four key objectives that are designed to promote informed, independent analyses and opinions by CRAs.<sup>2</sup> This, in turn, is designed to promote the three core objectives of securities regulations identified by IOSCO: the protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systemic risk.<sup>3</sup>

The four objectives (collectively, the "Principles") of the IOSCO CRA Principles are:

- **Quality and integrity of the credit rating process** – CRAs should endeavour to issue opinions that help reduce the asymmetry of information among borrowers, lenders and other market participants;
- **Independence and conflicts of interest** – CRA rating decisions should be independent and free from political or economic pressures and from conflicts of interest arising due to the CRA's ownership structure, business or financial activities, or the financial interests of the CRA's employees. CRAs should, as far as possible, avoid activities, procedures or relationships that may compromise or appear to compromise the independence and objectivity of credit rating operations;
- **Transparency and timeliness of ratings disclosure** – CRAs should make disclosure and transparency an objective of their ratings activities; and
- **Confidential information** – CRAs should maintain in confidence all non-public information communicated to them by any issuer, or its agents, under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially.

The Principles are high-level objectives that CRAs, regulators, rated entities, obligors, underwriters, arrangers, and other market participants should strive toward in order to improve investor protection and the fairness, efficiency and transparency of securities markets, and reduce systemic risk. The Principles apply to all types of CRAs operating in various jurisdictions. However, to take into account the different market, legal, and regulatory circumstances in which CRAs operate, and the varying size and business models of CRAs, the manner in which the Principles were to be implemented was left open. The Principles

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<sup>1</sup> See IOSCO Technical Committee, Statement of Principles Regarding the Activities of Credit Rating Agencies (Sept. 2003), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD151.pdf>.

<sup>2</sup> See *id.*

<sup>3</sup> See IOSCO, Objectives and Principles of Securities Regulation (rev. June 2010), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf>.

contemplated that a variety of mechanisms could be used, including both market mechanisms and regulation.

The following Code of Conduct Fundamentals for Credit Rating Agencies (the “IOSCO CRA Code”) offers a set of robust, practical measures that serve as a guide to and a framework for implementing the Principles’ objectives.<sup>4</sup> These measures are the fundamentals which should be included in individual CRA codes of conduct, and the elements contained in the IOSCO CRA Code should receive the full support of CRA management and be backed by thorough compliance and enforcement mechanisms. However, the measures set forth in the IOSCO CRA Code are not intended to be all-inclusive: CRAs and regulators should consider whether or not additional measures may be necessary to properly implement the Principles in a specific jurisdiction. Further, the IOSCO CRA Code is not designed to be rigid or formulistic. It is designed to offer CRAs a degree of flexibility in how these measures are incorporated into the individual codes of conduct of the CRAs themselves, according to each CRA’s specific legal, business, and market circumstances.

CRAs should give full effect to the IOSCO CRA Code subject to regional and national laws and regulations governing the activities of CRAs. In order to promote transparency and improve the ability of market participants and others to judge whether a CRA has satisfactorily implemented the IOSCO CRA Code, CRAs should disclose how each provision of the IOSCO CRA Code is addressed in the CRA’s own code of conduct. CRAs should explain if and how their own codes of conduct deviate from the IOSCO CRA Code and how such deviations nonetheless achieve the objectives laid out in the IOSCO CRA Code and the IOSCO CRA Principles. This will permit market participants to draw their own conclusions about whether the CRA has implemented the IOSCO CRA Code to their satisfaction, and to react accordingly. In developing their own codes of conduct, CRAs should keep in mind that the laws and regulations of the jurisdictions in which they operate vary and take precedence over the IOSCO CRA Code. These laws and regulations may include direct regulation of CRAs and may incorporate elements of the IOSCO CRA Code itself.

Finally, the IOSCO CRA Code only addresses measures that CRAs should adopt to help ensure that the Principles are properly implemented. The IOSCO CRA Code does not address the equally important obligations that rated entities, obligors, underwriters, and arrangers have of cooperating with and providing accurate and complete information to the marketplace and the CRAs they solicit to provide credit ratings. While aspects of the IOSCO CRA Code deal with a CRA’s duties to these entities, the essential purpose of the IOSCO CRA Code is to promote investor protection by safeguarding the integrity of the credit rating process. IOSCO members recognize that credit ratings, despite their numerous other uses, exist primarily to help investors and other users of credit ratings assess credit risks. Maintaining the independence of CRAs vis-à-vis the entities and obligations they rate is vital to achieving this goal. Provisions of the IOSCO CRA Code, dealing with CRA responsibilities to rated entities, obligors, underwriters, and arrangers are designed to improve the quality of credit ratings and their usefulness to investors. These provisions should not be interpreted in ways that undermine the independence of CRAs or their ability to issue timely credit ratings.

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<sup>4</sup> In 2004, following the publication of the IOSCO CRA Principles, IOSCO published the Code of Conduct Fundamentals for CRAs. The IOSCO CRA Code was revised in 2008 to address concerns about the role of CRAs in the wake of the financial crisis, and again in 2015 to take into account the CRA registration and oversight programs implemented by IOSCO members.

Like the IOSCO CRA Principles, the IOSCO CRA Code is also intended to be useful to all types of CRAs relying on a variety of different business models. The IOSCO CRA Code does not indicate a preference for one business model over another, nor are the measures described herein designed to be used only by CRAs with large staffs and compliance functions. Accordingly, the types of mechanisms and procedures CRAs adopt to ensure that the provisions of the IOSCO CRA Code are followed will vary according to the market and legal circumstances in which the CRA operates.

Structurally, the IOSCO CRA Code is broken into five sections:

- The Quality and Integrity of the Credit Rating Process;
- CRA Independence and the Avoidance of Conflicts of Interest;
- CRA Responsibilities to the Investing Public, Rated Entities, Obligors, Underwriters, and Arrangers;
- Governance, Risk Management, and Employee Training; and
- Disclosure and Communication with Market Participants.

## TERMS

For the purposes of the IOSCO CRA Code:<sup>5</sup>

- “Affiliate” means an entity that directly or indirectly controls, is controlled by, or is under common control with another entity.
- “Analyst” means a CRA employee who performs analytical functions that are necessary for the issuing or monitoring of a credit rating or participates in determining credit ratings, including an employee involved in a credit rating committee.
- “Credit rating” or “rating” means an assessment regarding the creditworthiness of an entity or obligation, expressed using an established and defined ranking system.
- “Credit rating action” means to determine an initial credit rating, an upgrade of an existing credit rating, a downgrade of an existing credit rating (including to a default category), an affirmation of an existing credit rating, or a withdrawal of a credit rating.
- “Credit rating agency” or “CRA” means an entity that is in the business of issuing credit ratings.
- “Credit rating methodology” means the procedure by which a CRA determines credit ratings, including the information that must be considered or analyzed to determine a credit rating and the analytical framework used to determine the credit rating, including, as applicable, the models, financial metrics, assumptions, criteria, or other quantitative or qualitative factors to be used to determine the credit rating.
- “Credit rating process” means all the steps taken with respect to a credit rating action including, but not limited to, the CRA’s selection and assignment of analysts to work on the matter, application of the credit rating methodology, decision-making activities (e.g., the operation of a rating committee), interaction with the rated entity, obligor, originator, underwriter, or arranger, and as applicable, dissemination of the credit rating publicly or to subscribers.

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<sup>5</sup> These definitions are intended to facilitate an understanding of the IOSCO CRA Code. These terms may be defined differently under regional and national laws. As noted above, laws and regulations of the jurisdictions in which CRAs operate vary and take precedence over the IOSCO CRA Code.

- “Employee” means any individual who works for the CRA on a full-time, part-time, or temporary basis, including any individual working as a contractor, provided that such contractor is involved in the credit rating process.
- “Entity” means a government; political subdivision, agency, or instrumentality of a government; or a company, corporation, partnership, trust, estate, or association.
- “Trading instrument” means a security, money market instrument, derivative, or other similar product.
- “Obligation” means a trading instrument, credit commitment, loan, or other similar product or transaction that has inherent credit risk.
- “Obligor” means the entity that is legally or contractually obliged to make payments on a rated obligation.

## **THE IOSCO CODE OF CONDUCT FUNDAMENTALS FOR CREDIT RATING AGENCIES**

As described in the IOSCO CRA Principles, CRAs should endeavor to issue credit ratings that help reduce the asymmetry of information that exists between rated entities, obligors, originators, underwriters, and arrangers, on one side, and users of credit ratings on the other. Rating analyses of low quality or produced through a process of questionable integrity are either of little use to or misleading for market participants. Stale credit ratings that fail to reflect changes to the financial condition or prospects of a rated entity, obligor, originator, underwriter, or arranger may mislead market participants. Likewise, conflicts of interest or other undue factors – internal and external – that might, or even appear to, impinge upon the independence of a credit rating action can seriously undermine a CRA’s credibility. Where conflicts of interest or a lack of independence is common at a CRA and hidden from investors, overall investor confidence in the transparency and integrity of a market can be harmed. CRAs also have responsibilities to the investing public and to rated entities, obligors, originators, underwriters, and arrangers, including a responsibility to protect the confidentiality of some types of information these entities share with them.

To help achieve the objectives outlined in the IOSCO CRA Principles, which should be read in conjunction with the IOSCO CRA Code, CRAs should adopt, publish, and adhere to a Code of Conduct containing the following measures:

### **1. QUALITY AND INTEGRITY OF THE CREDIT RATING PROCESS**

#### **A. Quality of the Credit Rating Process**

- 1.1 A CRA should establish, maintain, document, and enforce a credit rating methodology for each class of entity or obligation for which the CRA issues credit ratings. Each credit rating methodology should be rigorous, capable of being applied consistently, and, where possible, result in credit ratings that can be subjected to some form of objective validation based on historical experience.*
- 1.2 Credit ratings should reflect all information known and believed to be relevant to the CRA, consistent with the applicable credit rating methodology that is in effect. Therefore, the CRA should establish, maintain, document, and enforce policies, procedures, and controls to ensure that the credit ratings and related reports it disseminates are based on a thorough analysis of all such information.*
- 1.3 A CRA should adopt reasonable measures designed to ensure that it has the appropriate knowledge and expertise, and that the information it uses in determining*

- credit ratings is of sufficient quality and obtained from reliable sources to support a high quality credit rating.*
- 1.4 A CRA should avoid issuing credit ratings for entities or obligations for which it does not have appropriate information, knowledge, and expertise. For example, where the complexity of a security or the structure of a type of security, or the lack of robust data about the assets underlying the security raise serious questions as to whether the CRA can determine a high quality credit rating for the security, the CRA should refrain from issuing a credit rating.*
  - 1.5 In assessing creditworthiness, analysts involved in the credit rating action should use the credit rating methodology established by the CRA for the type of entity or obligation that is subject to the credit rating action. The credit rating methodology should be applied in a manner that is consistent across all entities or obligations for which that methodology is used.*
  - 1.6 A CRA should define the meaning of each category in its rating scales and apply those categories consistently across all classes of rated entities and obligations to which a given rating scale applies.*
  - 1.7 Credit ratings should be assigned by the CRA as an entity (not by an analyst or other employee of the CRA).*
  - 1.8 A CRA should assign analysts who, individually or collectively (particularly where credit rating committees are used), have appropriate knowledge and experience for assessing the creditworthiness of the type of entity or obligation being rated.*
  - 1.9 A CRA should maintain internal records that are accurate and sufficiently detailed and comprehensive to reconstruct the credit rating process for a given credit rating action. The records should be retained for as long as necessary to promote the integrity of the CRA's credit rating process, including to permit internal audit, compliance, and quality control functions to review past credit rating actions in order to carry out the responsibilities of those functions. Further, a CRA should establish, maintain, document, and enforce policies, procedures, and controls designed to ensure that its employees comply with the CRA's internal record maintenance, retention, and disposition requirements and with applicable laws and regulations governing the maintenance, retention, and disposition of CRA records.*
  - 1.10 A CRA should establish, maintain, document, and enforce policies, procedures, and controls designed to avoid issuing credit ratings, analyses, or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of a rated entity or obligation.*
  - 1.11 A CRA should ensure that it has and devotes sufficient resources to carry out and maintain high quality credit ratings.*

*When deciding whether to issue a credit rating for an entity or obligation, a CRA should assess whether it is able to devote a sufficient number of analysts with the skill sets to determine high quality credit ratings, and whether the analysts will have access to sufficient information in order to determine a high quality credit rating.*



- 1.12 *A CRA should establish and maintain a review function made up of one or more senior managers with appropriate experience to review the feasibility of providing a credit rating for a type of entity or obligation that is materially different from the entities or obligations the CRA currently rates.*
- 1.13 *A CRA should establish and maintain a review function made up of one or more senior managers responsible for conducting a rigorous, formal, and periodic review, on a regular basis pursuant to an established timeframe, of all aspects of the CRA's credit rating methodologies (including models and key assumptions) and significant changes to the credit rating methodologies. For example, a CRA should assess whether existing credit rating methodologies and models for determining credit ratings of structured finance products are appropriate when the risk characteristics of the assets underlying a structured finance product change materially.*
- Where feasible and appropriate for the size and scope of its credit rating business, this function should be independent of the employees who are principally responsible for determining credit ratings.*
- 1.14 *A CRA, in selecting the analyst or analysts who will participate in determining a credit rating, should seek to promote continuity but also to avoid bias in the credit rating process. For example, in seeking to balance the objectives of continuity and bias avoidance, a CRA could assign a team of analysts to participate in determining the credit rating – some for whom the rated entity or obligation is within their area of primary analytical responsibility and some of whom have other areas of primary analytical responsibility.*
- 1.15 *A CRA should ensure that sufficient employees and financial resources are allocated to monitoring and updating all its credit ratings. Except for a credit rating that clearly indicates it does not entail ongoing surveillance, once a credit rating is published, the CRA should monitor the credit rating on an ongoing basis by:*
- a. reviewing the creditworthiness of the rated entity or obligation regularly;*
  - b. initiating a review of the status of the credit rating upon becoming aware of any information that might reasonably be expected to result in a credit rating action (including withdrawal of a credit rating), consistent with the applicable credit rating methodology;*
  - c. reviewing the impact of and applying a change in the credit rating methodologies, models or key rating assumptions on the relevant credit ratings within a reasonable period of time;*
  - d. updating on a timely basis the credit rating, as appropriate, based on the results of such review; and*
  - e. incorporating all cumulative experience obtained.*
- 1.16 *If a CRA uses separate analytical teams for determining initial credit ratings and for subsequent monitoring of existing credit ratings, each team should have the requisite level of expertise and resources to perform their respective functions in a timely manner.*

1.17 *A CRA should establish, maintain, document, and enforce policies and procedures that clearly set forth guidelines for disseminating credit ratings that are the result or subject of credit rating actions and the related reports, and for when a credit rating will be withdrawn.*

**B. Integrity of the Credit Rating Process**

1.18 *A CRA and its employees should deal fairly and honestly with rated entities, obligors, originators, underwriters, arrangers, and users of credit ratings.*

1.19 *A CRA's employees should be held to the highest standards of integrity and ethical behavior, and the CRA should have policies and procedures in place that are designed to ensure that individuals with demonstrably compromised integrity are not employed.*

1.20 *A CRA and its employees should not, either implicitly or explicitly, give any assurance or guarantee to an entity subject to a rating action, obligor, originator, underwriter, arranger, or user of the CRA's credit ratings about the outcome of a particular credit rating action. This does not preclude the CRA from developing preliminary indications in a manner that is consistent with Provisions 1.22 and 2.6(d) of the IOSCO CRA Code.*

1.21 *A CRA and its employees should not make promises or threats about potential credit rating actions to influence rated entities, obligors, originators, underwriters, arrangers, or users of the CRA's credit ratings (e.g., subscribers) to pay for credit ratings or other services.*

1.22 *A CRA and its employees should not make proposals or recommendations regarding the activities of rated entities or obligors that could impact a credit rating of the rated entity or obligation, including but not limited to proposals or recommendations about corporate or legal structure, assets and liabilities, business operations, investment plans, lines of financing, business combinations, and the design of structured finance products.*

1.23 *In each jurisdiction in which a CRA operates, the CRA should establish, maintain, document, and enforce policies, procedures, and controls designed to ensure that the CRA and its employees comply with the CRA's code of conduct and applicable laws and regulations.*

a. *The CRA should establish a compliance function responsible for monitoring and reviewing the compliance of the CRA and its employees with the provisions of the CRA's code of conduct and with applicable laws and regulations.*

b. *The compliance function also should be responsible for reviewing the adequacy of the CRA's policies, procedures, and controls designed to ensure compliance with the CRA's code of conduct and applicable laws and regulations.*

c. *The CRA should assign a senior level employee with the requisite skill set to serve as the CRA's compliance officer in charge of the compliance function. The compliance officer's reporting lines and compensation should be independent of the CRA's credit rating operations.*

1.24 *Upon becoming aware that another employee or an affiliate of the CRA is or has engaged in conduct that is illegal, unethical, or contrary to the CRA's code of conduct, the CRA employee should report such information immediately to the compliance officer or another officer of the CRA, as appropriate, so proper action may be taken. The CRA's employees are not necessarily expected to be experts in the law. Nonetheless, CRA employees are expected to report activities that a reasonable person would question. Upon receiving such a report from an employee, the CRA is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the policies, procedures, and controls established, maintained, documented, and enforced by the CRA. A CRA should prohibit retaliation by the CRA or an employee against any employees who, in good faith, make such reports.*

## **2. CRA INDEPENDENCE AND AVOIDANCE OF CONFLICTS OF INTEREST**

### **A. General**

- 2.1 *A CRA should not delay or refrain from taking a credit rating action based on the potential effect (economic, political, or otherwise) of the action on the CRA, a rated entity, obligor, originator, underwriter, arranger, investor, or other market participant.*
- 2.2 *A CRA and its employees should use care and professional judgment to maintain both the substance and appearance of the CRA's and its employees' independence and objectivity.*
- 2.3 *A CRA's determination of a credit rating should be influenced only by factors relevant to assessing the creditworthiness of the rated entity or obligation.*
- 2.4 *The credit rating a CRA assigns to an entity or obligation should not be affected by whether there is an existing or potential business relationship between the CRA (or its affiliates) and the rated entity, obligor, originator, underwriter, or arranger (or any of their affiliates), or any other party.*
- 2.5 *A CRA should operationally, legally, and, if practicable, physically separate its credit rating business and its analysts from any other businesses of the CRA that may present a conflict of interest. For other businesses that do not necessarily present a conflict of interest, the CRA should establish, maintain, document, and enforce policies, procedures, and controls designed to minimize the likelihood that conflicts of interest will arise. A CRA should disclose why it believes those other businesses do not present a conflict of interest with its credit rating business.*

## **B. CRA Policies, Procedures, Controls and Disclosures**

- 2.6 *A CRA should establish, maintain, document, and enforce policies, procedures, and controls to identify and eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the credit rating methodologies, credit rating actions, or analyses of the CRA or the judgment and analyses of the CRA's employees. Among other things, the policies, procedures, and controls should address (as applicable to the CRA's business model) how the following conflicts can potentially influence the CRA's credit rating methodologies or credit rating actions:*
- a. being paid to issue a credit rating by the rated entity or by the obligor, originator, underwriter, or arranger of the rated obligation;*
  - b. being paid by subscribers with a financial interest that could be affected by a credit rating action of the CRA;*
  - c. being paid by rated entities, obligors, originators, underwriters, arrangers, or subscribers for services other than issuing credit ratings or providing access to the CRA's credit ratings;*
  - d. providing a preliminary indication or similar indication of credit quality to an entity, obligor, originator, underwriter, or arranger prior to being hired to determine the final credit rating for the entity, obligor, originator, underwriter, or arranger; and*
  - e. having a direct or indirect ownership interest in a rated entity or obligor, or having a rated entity or obligor have a direct or indirect ownership interest in the CRA.*
- 2.7 *A CRA should disclose actual and potential conflicts of interest (including, but not limited to, those conflicts of interest identified in Principle 2.6 above) in a complete, timely, clear, concise, specific, and prominent manner. When the actual or potential conflict of interest is unique or specific to a credit rating action with respect to a particular rated entity, obligor, originator, lead underwriter, arranger, or obligation, such conflict of interest should be disclosed in the same form and through the same means as the relevant credit rating action.*
- 2.8 *A CRA should disclose the general nature of its compensation arrangements with rated entities, obligors, lead underwriters, or arrangers.*
- a. When the CRA receives from a rated entity, obligor, originator, lead underwriter, or arranger compensation unrelated to its credit rating services, the CRA should disclose such unrelated compensation as a percentage of total annual compensation received from such rated entity, obligor, lead underwriter, or arranger in the relevant credit rating report or elsewhere, as appropriate.*
  - b. A CRA should disclose in the relevant credit rating report or elsewhere, as appropriate, if it receives 10 percent or more of its annual revenue from a single client (e.g., a rated entity, obligor, originator, lead underwriter, arranger, or subscriber, or any of their affiliates).*
- 2.9 *A CRA should disclose in its credit rating announcement whether the issuer of a structured finance product has informed the CRA that it is publicly disclosing all*

*relevant information about the obligation being rated or if the information remains non-public.*

- 2.10 *A CRA should not hold or transact in trading instruments presenting a conflict of interest with the CRA's credit rating activities.*
- 2.11 *In instances where rated entities or obligors (e.g., sovereign nations or states) have, or are simultaneously pursuing, oversight functions related to the CRA, the employees responsible for interacting with the officials of the rated entity or the obligor (e.g., government regulators) regarding supervisory matters should be separate from the employees that participate in taking credit rating actions or developing or modifying credit rating methodologies that apply to such rated entity or obligor.*

### **C. CRA Employee Independence**

- 2.12 *Reporting lines for CRA employees and their compensation arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest.*
  - a. *A CRA employee who participates in or who might otherwise have an effect on a credit rating action with respect to an entity or obligation should not be compensated or evaluated on the basis of the amount of revenue that the CRA derives from that entity or obligor.*
  - b. *A CRA should conduct formal and periodic reviews of its compensation policies, procedures, and practices for CRA employees who participate in or who might otherwise have an effect on a credit rating action to ensure that these policies, procedures, and practices have not compromised and do not compromise the objectivity of the CRA's credit rating process.*
- 2.13 *A CRA's employees who participate in or who might otherwise have an effect on a credit rating action should not initiate or participate in discussions with rated entities, obligors, arrangers, or subscribers regarding fees or payments charged to such rated entity, obligor, arranger, or subscriber.*
- 2.14 *A CRA employee should not participate in or otherwise influence a CRA's credit rating action with respect to an entity or obligation if the employee, an immediate family member of the employee (e.g., spouse, domestic partner, or dependent), or an entity managed by the employee (e.g., a trust):*
  - a. *Holds or transacts in a trading instrument issued by the rated entity or obligor;*
  - b. *Holds or transacts in a trading instrument (other than a diversified collective investment scheme) that itself owns an interest in the rated entity or obligor, or is a derivative based on a trading instrument issued by the rated entity or obligor;*
  - c. *Holds or transacts in a trading instrument issued by an affiliate of the rated entity or obligor, the ownership of which may cause or may be perceived as causing a conflict of interest with respect to the employee or the CRA;*
  - d. *Holds or transacts in a trading instrument issued by a lead underwriter or arranger of the rated obligation, the ownership of which may cause or may be*

*perceived as causing a conflict of interest with respect to the employee or the CRA;*

- e. Is currently employed by, or had a recent employment or other significant business relationship with the rated entity or obligor or a lead underwriter or arranger of the rated obligation that may cause or may be perceived as causing a conflict of interest;*
  - f. Is a director of the rated entity or obligor, or lead underwriter or arranger of the rated obligation; or*
  - g. Has, or had, another relationship with or interest in the rated entity, obligor, or the lead underwriter or arranger of the rated obligation (or any of their affiliates) that may cause or may be perceived as causing a conflict of interest.*
- 2.15 A CRA analyst should not hold or transact in a trading instrument issued by a rated entity or obligor in the analyst's area of primary analytical responsibility. This would not preclude an analyst from holding or trading a diversified collective investment scheme that owns a trading instrument issued by a rated entity or obligor in the analyst's area of primary analytical responsibility.*
- 2.16 A CRA employee should be prohibited from soliciting money, gifts, or favors from anyone with whom the CRA does business and should be prohibited from accepting gifts offered in the form of cash or cash equivalents or any gifts exceeding a minimal monetary value.*
- 2.17 A CRA employee who becomes involved in a personal relationship (including, for example, a personal relationship with an employee of a rated entity, obligor, or originator, or the lead underwriter or arranger of a rated obligation) that creates an actual or potential conflict of interest should be required under the CRA's policies, procedures, and controls to disclose the relationship to the compliance officer or another officer of the CRA, as appropriate.*
- 2.18 A CRA should establish, maintain, document, and enforce policies, procedures, and controls for reviewing without unnecessary delay the past work of an analyst who leaves the employ of the CRA and joins an entity that the employee participated in rating, an obligor whose obligation the employee participated in rating, an originator, underwriter, or arranger with which the employee had significant dealings as part of his or her duties at the CRA, or any of their affiliates.*

### **3. CRA RESPONSIBILITIES TO THE INVESTING PUBLIC, RATED ENTITIES, OBLIGORS, ORIGINATORS, UNDERWRITERS, AND ARRANGERS**

#### **A. Transparency and Timeliness of Credit Ratings Disclosure**

- 3.1 A CRA should assist investors and other users of credit ratings in developing a greater understanding of credit ratings by disclosing in plain language, among other things, the nature and limitations of credit ratings and the risks of unduly relying on them to make investment or other financial decisions. A CRA that is subject to a CRA registration and oversight program administered by a regional or national authority should not state or imply that the authority endorses its credit ratings or use its registration status to advertise the quality of its credit ratings.*

- 3.2 *A CRA should disclose sufficient information about its credit rating process and its credit rating methodologies, so that investors and other users of credit ratings can understand how a credit rating was determined by the CRA.*
- 3.3 *A CRA should disclose a material modification to a credit rating methodology prior to the modification taking effect unless doing so would negatively impact the integrity of a credit rating by unduly delaying the taking of a credit rating action. In either case, the CRA should disclose the material modification in a non-selective manner.*
- 3.4 *A CRA should disclose its policies and procedures that address the issuance of unsolicited credit ratings.*
- 3.5 *A CRA should disclose its policies and procedures for distributing credit ratings and reports, and for when a credit rating will be withdrawn.*
- 3.6 *A CRA should disclose clear definitions of the meaning of each category in its rating scales, including the definition of default.*
- 3.7 *A CRA should differentiate credit ratings of structured finance products from credit ratings of other types of entities or obligations, preferably through a different credit rating identifier. The CRA should also disclose how this differentiation functions.*
- 3.8 *A CRA should be transparent with investors, rated entities, obligors, originators, underwriters, and arrangers about how the relevant entity or obligation is rated.*
- 3.9 *Where feasible and appropriate, a CRA should inform the rated entity, or the obligor or arranger of the rated obligation about the critical information and principal considerations upon which a credit rating will be based prior to disseminating a credit rating that is the result or subject of the credit rating action and afford such rated entity, obligor, or arranger an adequate opportunity to clarify any factual errors, factual omissions, or factual misperceptions that would have a material effect on the credit rating. The CRA should duly evaluate any response from such rated entity, obligor, or arranger. Where in particular circumstances the CRA has not informed such rated entity, obligor, or arranger prior to disseminating a credit rating action, the CRA should inform such rated entity, obligor, or arranger as soon as practical thereafter and, generally, should explain why the CRA did not inform such rated entity, obligor, or arranger prior to disseminating the credit rating action.*
- 3.10 *When a CRA publicly discloses or distributes to its subscribers (depending on the CRA's business model) a credit rating that is the result or subject of the credit rating action, it should do so as soon as practicable after taking such action.*
- 3.11 *When a CRA publicly discloses or distributes to its subscribers (depending on the CRA's business model) a credit rating that is the result or subject of a credit rating action, it should do so on a non-selective basis.*
- 3.12 *A CRA should disclose with a credit rating that is the result or subject of a credit rating action whether the rated entity, obligor, or originator, or the underwriter or arranger of the rated obligation participated in the credit rating process. Each credit rating not initiated at the request of the rated entity, obligor, or originator, or the underwriter or arranger of the rated obligation should be identified as such.*

- 3.13 *A CRA should clearly indicate the attributes and limitations of each credit rating, and the extent to which the CRA verifies information provided to it by the rated entity, obligor, or originator, or the underwriter or arranger of the rated obligation. For example, if the credit rating involves a type of entity or obligation for which there is limited historical data, the CRA should disclose this fact and how it may limit the credit rating.*
- 3.14 *A CRA should indicate in the announcement of a credit rating that is the result or the subject of a credit rating action when the credit rating was last updated or reviewed. The credit rating announcement should also indicate the principal credit rating methodology or methodology version that was used in determining the credit rating and where a description of that credit rating methodology can be found. Where the credit rating is based on more than one credit rating methodology, or where a review of only the principal credit rating methodology might cause investors and other users of credit ratings to overlook important aspects of the credit rating, the CRA should explain this fact in the credit rating announcement, and indicate where to find a discussion of how the different credit rating methodologies and other important aspects factored into the credit rating decision.*
- 3.15 *When rating a structured finance product, a CRA should publicly disclose or distribute to its subscribers (depending on the CRA's business model) sufficient information about its loss and cash-flow analysis with the credit rating, so that investors in the product, other users of credit ratings, and/or subscribers can understand the basis for the CRA's credit rating. The CRA should also publicly disclose or distribute information about the degree to which it analyzes how sensitive a credit rating of a structured finance product is to changes in the assumptions underlying the applicable credit rating methodology.*
- 3.16 *When issuing or revising a credit rating, a CRA should explain in its announcement and/or report the key assumptions and data underlying the credit rating, including financial statement adjustments that deviate materially from those contained in the published financial statements of the relevant rated entity or obligor.*
- 3.17 *If a CRA discontinues monitoring a credit rating for a rated entity or obligation it should either withdraw the credit rating or disclose such discontinuation to the public or to its subscribers (depending on the CRA's business model) as soon as practicable. A publication by the CRA of a credit rating that is no longer being monitored should indicate the date the credit rating was last updated or reviewed, the reason the credit rating is no longer monitored, and the fact that the credit rating is no longer being updated.*
- 3.18 *To promote transparency and to enable investors and other users of credit ratings to compare the performance of different CRAs, a CRA should disclose sufficient information about the historical transition and default rates of its credit rating categories with respect to the classes of entities and obligations it rates. This information should include verifiable, quantifiable historical information, organized over a period of time, and, where possible, standardized in such a way to assist investors and other users of credit ratings in comparing different CRAs. If the nature of the rated entity or obligation or other circumstances make such historical*



*transition or default rates inappropriate, statistically invalid, or otherwise likely to mislead investors or other users of credit ratings, the CRA should disclose why this is the case.*

## **B. The Treatment of Confidential Information**

- 3.19 *A CRA should establish, maintain, document, and enforce policies, procedures, and controls to protect confidential and/or material non-public information, including confidential information received from a rated entity, obligor, or originator, or the underwriter or arranger of a rated obligation, and non-public information about a credit rating action (e.g., information about a credit rating action before the credit rating is publicly disclosed or disseminated to subscribers).*
- a. *The policies, procedures, and controls should prohibit the CRA and its employees from using or disclosing confidential and/or material non-public information for any purpose unrelated to the CRA's credit rating activities, including disclosing such information to other employees where the disclosure is not necessary in connection with the CRA's credit rating activities, unless disclosure is required by applicable law or regulation.*
  - b. *The policies, procedures, and controls should require the CRA and its employees to take reasonable steps to protect confidential and/or material non-public information from fraud, theft, misuse, or inadvertent disclosure.*
  - c. *With respect to confidential information received from a rated entity, obligor, originator, underwriter, or arranger, the policies, procedures, and controls should prohibit the CRA and its employees from using or disclosing such information in violation of the terms of any applicable agreement or mutual understanding that the CRA will keep the information confidential, unless disclosure is required by applicable law or regulation.*
  - d. *With respect to a pending credit rating action, the policies, procedures, and controls should prohibit the CRA and its employees from selectively disclosing information about the pending credit rating action, except to the rated entity, obligor, arranger, or their designated agents, or as required by applicable law or regulation.*
- 3.20 *A CRA should establish, maintain, document, and enforce policies, procedures, and controls designed to prevent violations of applicable laws and regulations governing the treatment and use of confidential and/or material non-public information.*
- 3.21 *A CRA should establish, maintain, document, and enforce policies, procedures, and controls that prohibit employees that possess confidential and/or material non-public information concerning a trading instrument from engaging in a transaction in the trading instrument or using the information to advise or otherwise advantage another person in transacting in the trading instrument.*

## **4. GOVERNANCE, RISK MANAGEMENT, AND EMPLOYEE TRAINING**

- 4.1 *A CRA's board (or similar body) should have ultimate responsibility for ensuring that the CRA establishes, maintains, documents, and enforces a code of conduct that gives full effect to the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies.*

- 4.2 *A CRA should establish a risk management function made up of one or more senior managers or employees with the appropriate level of experience responsible for identifying, assessing, monitoring, and reporting the risks arising from its activities, including, but not limited to legal risk, reputational risk, operational risk, and strategic risk. The function should be independent of the internal audit function (if practicable given the CRA's size) and make periodic reports to the board (or similar body) and senior management to assist them in assessing the adequacy of the policies, procedures, and controls the CRA establishes, maintains, documents, and enforces to manage risk, including the policies, procedures, and controls specified in the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies.*
- 4.3 *A CRA should establish, maintain, document, and enforce policies, procedures, and controls requiring employees to undergo formal ongoing training at reasonably regular time intervals. The subject matter covered by the training should be relevant to the employee's responsibilities and should cover, as applicable, the CRA's code of conduct, the CRA's credit rating methodologies, the laws governing the CRA's credit rating activities, the CRA's policies, procedures, and controls for managing conflicts of interest and governing the holding and transacting in trading instruments, and the CRA's policies and procedures for handling confidential and/or material non-public information. The policies, procedures, and controls should include measures designed to verify that employees undergo required training.*

## **5. DISCLOSURE AND COMMUNICATION WITH MARKET PARTICIPANTS**

- 5.1 *A CRA's disclosures, including those specified in the provisions of the IOSCO CRA Code, should be complete, fair, accurate, timely, and understandable to investors and other users of credit ratings.*
- 5.2 *A CRA should disclose with its code of conduct a description of how the provisions of its code of conduct fully implement the provisions of the IOSCO Statement of Principles Regarding the Activities of Credit Rating Agencies and the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (collectively, the "IOSCO provisions"). If the CRA's code of conduct deviates from an IOSCO provision, the CRA should identify the relevant IOSCO provision, explain the reason for the deviation, and explain how the deviation nonetheless achieves the objectives contained in the IOSCO provisions. The CRA should describe how it implements and enforces its code of conduct. The CRA also should disclose as soon as practicable any changes to its code of conduct or changes to how it is being implemented or enforced.*
- 5.3 *A CRA should establish and maintain a function within its organization charged with receiving, retaining, and handling complaints from market participants and the public. The function should establish, maintain, document, and enforce policies, procedures, and controls for receiving, retaining, and handling complaints, including those that are provided on a confidential basis. The policies, procedures, and controls should specify the circumstances under which a complaint must be reported to senior management and/or the board (or similar body).*

- 5.4 *A CRA should publicly and prominently disclose free of charge on its primary website:*
- a. the CRA's code of conduct;*
  - b. a description of the CRA's credit rating methodologies;*
  - c. information about the CRA's historic performance data; and*
  - d. any other disclosures specified in the provisions of the IOSCO CRA Code as applicable given the CRA's business model.*