CODE OF CONDUCT FUNDAMENTALS FOR CREDIT RATING AGENCIES

Final Report

THE BOARD
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I. Introduction

The IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (the "IOSCO CRA Code") is intended to offer a set of robust, practical measures as a guide to and a framework for CRAs with respect to protecting the integrity of the rating process, ensuring that investors and issuers are treated fairly, and safeguarding confidential material information provided them by issuers. The IOSCO CRA Code was first published in 2004 when few jurisdictions had laws governing activities of CRAs. In recent years, many IOSCO members have implemented registration and oversight programs for CRAs and have exercised supervisory authority over CRAs. In light of these developments, IOSCO is adopting significant revisions and updates to the IOSCO CRA Code.[1]

II. Historical Background

In 2003, IOSCO published a set of principles with respect to CRAs (the "IOSCO CRA Principles").[2] At the same time, IOSCO also published a report outlining the activities of CRAs, the types of regulatory issues that arise relating to these activities, and how the IOSCO CRA Principles address the issues.[3] The report highlighted the growing and sometimes controversial importance placed on credit ratings, and found that, in some cases, CRAs' activities are not always well understood by investors and issuers alike. Given this lack of understanding, and because CRAs typically were subject to little formal regulation or oversight in most jurisdictions, concerns had been raised regarding the manner in which CRAs protect the integrity of the rating process, ensure that investors and issuers are treated fairly, and safeguard confidential material information provided to them by issuers. Consequently, the IOSCO CRA Principles were intended to be a useful tool for CRAs, regulators, and others seeking to improve how CRAs operate and how credit ratings are used by market participants. The IOSCO CRA Principles address four key objectives to promote informed, independent analyses and opinions by CRAs:

- **Quality and integrity of the rating process:** CRAs should endeavor to issue opinions that help reduce the asymmetry of information among borrowers, lenders and other market participants.

- **Independence and conflicts of interest:** CRA ratings 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 the credit rating operations.

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1 The new IOSCO CRA Code is attached to this report at Appendix A.

2 *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.

3 *See* IOSCO Technical Committee, Report on the Activities of Credit Rating Agencies (Sept. 2003), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD153.pdf.

- **Transparency and timeliness of ratings disclosure:** CRAs should make disclosure and transparency an objective in their ratings activities.

- **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.

Following publication of the IOSCO CRA Principles, some commenters, including a number of CRAs, suggested that it would be useful if IOSCO were to develop a more specific and detailed code of conduct giving guidance on how the IOSCO CRA Principles could be implemented in practice. IOSCO responded in 2004 with the publication of the first iteration of the IOSCO CRA Code.[4] The IOSCO CRA Code was based on input from IOSCO member jurisdictions, CRAs, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors.[5] The IOSCO CRA Code was intended to advance the goals of investor protection, fairness, efficiency, and transparency in securities markets, and the reduction of systemic risk. More specifically, the IOSCO CRA Code was designed to provide guidance to CRAs on how the IOSCO CRA Principles could be implemented to: help guard against conflicts of interest; ensure credit rating methodologies are used consistently by employees; provide investors with sufficient information to judge the quality of the CRA's credit ratings; and generally ensure the integrity of the credit rating process. The IOSCO CRA Code also was designed to be relevant to all CRAs irrespective of their size, their business model, and the market in which they operate.

In the wake of the 2008 financial crisis, the IOSCO Chairman's Task Force on Credit Rating Agencies (the "CRA Task Force") – the predecessor of the Committee on Credit Ratings ("C6") – undertook a study of the role of CRAs in the structured finance market. The study's findings were released in a report.[6] The report included several recommendations to revise the IOSCO CRA Code, which were adopted concurrently with the publication of the report.[7] The revisions were designed to address the concerns that emerged from the study, including questions regarding the quality of information that CRAs relied on, suggestions that CRAs were too slow to review existing ratings and make downgrades as appropriate, and the possible conflict of interest arising from CRAs advising issuers on how to design structured finance products. Based on the recommendations, an updated IOSCO CRA Code was published in May 2008 (the "2008 Code"). The revisions, among other things, added the following disclosure provisions to the IOSCO CRA Code: (1) whether any one issuer, originator, arranger, subscriber or other client

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4 *See* IOSCO Technical Committee, Code of Conduct Fundamentals for Credit Rating Agencies (Dec. 2004), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD180.pdf.

5 *See* Chairman's Task Force of the Technical Committee of IOSCO, Code of Conduct Fundamentals for Credit Rating Agencies – Consultation Report (Oct. 2004), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD173.pdf.

6 *See* IOSCO Technical Committee, The Role of Credit Rating Agencies in Structured Finance Markets (May 2008), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD270.pdf.

7 *See* IOSCO Technical Committee, Code of Conduct Fundamentals for Credit Rating Agencies (rev. May 2008), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD271.pdf

and its affiliates make up 10% or more of the CRA's annual revenue; (2) whether the issuer of a structured finance product has informed the CRA that it is publicly disclosing all relevant information about the rated product so investors and other CRAs can conduct their own analyses of these products independently of the contracted CRA; (3) the attributes and limitations of each credit opinion, and the extent to which the CRA verifies information provided to it by the issuer or originator of a rated security; (4) the degree to which the CRA analyzes how sensitive a structured finance product's rating is to changes in the CRA's underlying ratings assumptions; (5) the principal methodology or methodology version in use when determining a rating; and (6) the CRA's internal code of conduct on its home webpage.

In 2009, the CRA Task Force completed a review of the level of CRA implementation of the IOSCO CRA Code and, in particular, the 2008 revisions.[8] The results of the review showed that, among the CRAs reviewed, a number were found to have substantially implemented the IOSCO CRA Code, including the three largest CRAs – Fitch Ratings, Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and Standard & Poor's Rating Services ("S&P"). In addition, a large majority of the remaining CRAs had implemented the 2004 iteration of the IOSCO CRA Code but had not yet implemented the provisions added through the 2008 revisions. Only a handful of the CRAs reviewed were found to have not implemented the IOSCO CRA Code in any meaningful way.

In May 2009, IOSCO converted the CRA Task Force into a permanent committee on CRAs (C6), with a mandate to:

- Regularly discuss, evaluate, and consider regulatory and policy initiatives vis-à-vis CRA activities and oversight in an effort to seek cross border regulatory consensus through such means as the IOSCO CRA Code; and

- Facilitate regular dialogue between securities regulators and the credit rating industry.

Given the emergence of CRA registration and oversight programs in the 2006-2010 timeframe, IOSCO published a report in 2010 containing the results of C6's evaluation of how regional and national authorities were implementing CRA laws and regulations.[9] Among other things, the report concluded that, while the structure and specific provisions of regulatory programs may differ, the objectives of the four IOSCO CRA Principles are embedded into each of the programs reviewed. Indeed, the principles appear to be the building blocks on which CRA regulatory programs have been constructed.

In 2012, IOSCO published a survey report prepared by C6, which provides a comprehensive description of the key risk controls established by CRAs to promote the integrity

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8 *See* IOSCO Technical Committee, A Review of Implementation of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (Mar. 2009), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD286.pdf.

9 *See* IOSCO Technical Committee, Regulatory Implementation of the Statement of Principles Regarding the Activities of Credit Rating Agencies (Feb. 2011), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD346.pdf.

of the credit rating process and the procedures established to manage conflicts of interest.[10] The 2012 report serves as a resource to increase public understanding of the internal workings of CRAs, and to allow CRAs to compare their internal controls and procedures with those of their peers. The report, in conjunction with disclosures that CRAs make about their controls and procedures, also may help users of ratings draw their own conclusions about an individual CRA's controls and procedures and thereby help users make informed decisions with respect to their use of credit ratings.

In July 2013, IOSCO published a final report recommending the creation of supervisory colleges for certain globally active CRAs.[11] Supervisory core colleges for Fitch, Moody's, and S&P held their inaugural meetings on November 5–6, 2013 in New York. The colleges for S&P and Moody's are chaired by the U.S. Securities and Exchange Commission, and the college for Fitch is chaired by the European Securities and Markets Authority. IOSCO expects that these supervisory colleges will operate as a forum for regulators to exchange information about these internationally active CRAs, including the following:

- Compliance with local or regional laws and regulations,
- The CRA's implementation and adherence to the IOSCO CRA Code, and
- The establishment and operation of rating models and methodologies, internal controls, procedures to manage conflicts of interest, and procedures for handling material non-public information, with the goal of promoting a better understanding of the risks faced or posed by the internationally active CRA and how relevant supervisors are addressing these risks.

In February 2014, IOSCO published proposed revisions to the IOSCO CRA Code to take into account the fact that CRAs are now supervised by regional and national authorities (the "Consultation Report").[12] After considering public comments in response to the Consultation Report, the new IOSCO CRA Code being adopted in this Final Report (the "new IOSCO CRA Code") is intended to work in harmony with CRA registration and oversight programs and to continue operating as the international standard for CRA self-governance. The revisions result, in part, from the experience of IOSCO members in supervising CRAs. They also are informed by work undertaken by C6, including the survey report describing the key risk controls established by CRAs to promote the integrity of the credit rating process and the procedures established to manage conflicts of interest. Further, as part of the work stream to revise the IOSCO CRA Code, C6 surveyed its member jurisdictions on whether the IOSCO CRA Code's provisions are the same, similar, or in conflict with member jurisdictions' laws. C6 also sent a

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[10] *See* IOSCO Board, Credit Rating Agencies: Internal Controls Designed to Ensure the Integrity of the Credit Rating Process and Procedures to Manage Conflicts of Interest (Dec. 2012), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD398.pdf.

[11] *See* IOSCO Board, Supervisory Colleges for Credit Rating Agencies (July 2013), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD416.pdf.

[12] *See* IOSCO Board, Code of Conduct Fundamentals for Credit Rating Agencies – Consultation Report (Feb. 2014), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD437.pdf.

similar survey to 26 CRAs having principal offices in Argentina, Brazil, Canada, Chile, the European Union, Japan, Mexico, or the United States. These CRAs were asked to identify any IOSCO CRA Code provisions that conflicted with the laws in their home jurisdiction, and also to identify any IOSCO CRA Code provisions they found to be repetitive, ambiguous, outdated, or that contained obsolete terminology. Certain CRAs also presented at C6 meetings in which they discussed potential revisions to the IOSCO CRA Code provisions. These survey responses and presentations of the CRAs also informed the revisions to the IOSCO CRA Code.

III. New IOSCO CRA Code

The revisions to the IOSCO CRA Code are designed to achieve a number of objectives: (1) to strengthen the IOSCO CRA Code by enhancing provisions regarding protecting the integrity of the credit rating process, managing conflicts of interest, providing transparency,[13] and safeguarding non-public information; (2) to strengthen the IOSCO CRA Code by adding measures regarding governance, training, and risk management; and (3) to improve the clarity of the IOSCO CRA Code by adding definitions of key terms and revising existing definitions, updating terminology, restructuring existing provisions to better group them thematically, and eliminating extraneous text. As noted above, the revisions are informed by the experience of IOSCO members in exercising supervisory authority with respect to CRAs (*e.g.*, policy making, examinations, inspections, and monitoring) and through the work of C6. The new IOSCO CRA Code is intended to work in harmony with existing CRA laws and regulations and to be the international standard for CRA self-governance.[14]

The first objective of the revisions is to strengthen the IOSCO CRA Code by enhancing certain provisions. New Provisions 1.1, 1.4, 1.9, 1.10, 1.12–1.17, and 1.19–1.23 in Section 1 (Quality and Integrity of the Credit Rating Process) of the IOSCO CRA Code modify current provisions or add new provisions to enhance the IOSCO CRA Code's measures that are designed to protect the integrity of the credit rating process. New Provisions 2.1, 2.2, and 2.5–2.18 in Section 2 (CRA Independence and Avoidance of Conflicts of Interest) of the IOSCO CRA Code modify current provisions to enhance the IOSCO CRA Code's measures designed to manage conflicts of interest. New Provisions 3.1, 3.3, 3.5–3.11, and 3.13–3.17 in Section 3A (Transparency and Timeliness of Credit Ratings Disclosure) of the IOSCO CRA Code and new Provisions 5.1–5.4 in Section 5 (Disclosure and Communication with Market Participants) of the IOSCO CRA Code modify current provisions or add new provisions to enhance the IOSCO CRA Code's measures designed to enhance transparency. New Provisions 3.19–3.21 in Section 3B (The Treatment of Confidential Information) of the IOSCO CRA Code modify existing provisions or add new provisions to enhance the IOSCO CRA Code's measures designed to safeguard non-public information. These modifications and additions are described below.

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[13] With respect to enhancing transparency, IOSCO notes that the communiqué resulting from the November 4-5, 2012 meeting of the G20 Finance Ministers and Central Bank Governors stated, in pertinent part, "[w]e encourage further work to enhance transparency of and competition among credit rating agencies...." *See* G20, Communiqué of Ministers of Finance and Central Bank Governors of the G20, Mexico City (Nov. 4-5, 2012), *available at* http://www.treasury.gov/resource-center/international/g7-g20/Documents/G20%20Ministerial%20Communique%20November%204-5-2012-Mexico%20City.pdf.

[14] The preamble to the IOSCO CRA Code continues to provide that laws and regulations in jurisdictions in which a CRA operates take precedence over the IOSCO CRA Code.

The second objective of the revisions is to strengthen the IOSCO CRA Code by adding measures regarding governance, training, and risk management. The revisions to the IOSCO CRA Code meet this objective by adding new Provisions 4.1, 4.2, and 4.3 to new Section 4 (Governance, Risk Management, and Employee Training). These three new provisions address the responsibility of the CRA's board with respect to the CRA's code of conduct, the establishment and maintenance of a risk management function, and employee training.

The third objective of the revisions is to improve the clarity of the IOSCO CRA Code by adding definitions of key terms and revising existing definitions, updating terminology, restructuring existing provisions to better group them thematically, and eliminating extraneous text. Terminology and extraneous text have been revised as indicated in the explanatory notes below. The IOSCO CRA Code revises the definitions of "analyst", "CRA", and "credit rating", and adds definitions for "credit rating action", "credit rating methodology", "credit rating process", "employee", "entity", "trading instrument", "obligation", and "obligor". The revisions to the existing definitions and new definitions are designed to provide greater clarity as to what is intended under the provisions of the IOSCO CRA Code.

In addition, provisions have been restructured to better group them thematically. 2008 Code Provision 1.10 is new Provision 3.17 (regarding discontinued ratings), to move the provision from deleted Section 1B (Monitoring and Updating) to Section 3A (Transparency and Timeliness of Credit Rating Disclosure). 2008 Code Provision 3.15 is new Provision 4.3 (regarding employee training) of the IOSCO CRA Code, due to the creation of new Section 4 (Governance, Risk Management, and Employee Training). Finally, Section 3A (Transparency and Timeliness of Credit Ratings Disclosure) of the IOSCO CRA Code has been re-ordered so that more general disclosures are discussed at the beginning of the section (new Provisions 3.1–3.8 of the IOSCO CRA Code), before the disclosures related to specific credit rating actions (new Provisions 3.9–3.17 of the IOSCO CRA Code).

The following explanatory notes provide a redline comparison of the IOSCO CRA Code as proposed in the Consultation Report and adopted in this Final Report and briefly explain the differences between the IOSCO CRA Code in the 2008 Code, the Consultation Report, and the Final Report.

Global changes

Certain non-substantive clarifying changes are made globally throughout the IOSCO CRA Code, which are not discussed in the explanatory notes below. These clarifying changes include the following:

- Replacing "The CRA" with "A CRA" the first time it appears in a provision;
- Replacing "assessment(s)" with "credit rating(s)";
- Replacing "rating(s)" with "credit rating(s)" where "rating(s)" is used as a noun;
- Replacing "prospective assessment" with "preliminary indication"; and
- Occasionally replacing "any" with "a".

Affiliate

Redline Comparison between Consultation and Final Reports: *"Affiliate" means an entity that directly or indirectly controls, is controlled by, or is under common control with ~~the CRA~~another entity.*

Summary of Changes between 2008 Code and Final Report: The term "affiliate" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: In response to comments that "affiliate" does not always refer to a CRA's affiliate in the IOSCO CRA Code (*see* new Provisions 2.4, 2.8, 2.14, and 2.18), the definition of "affiliate" is revised from the Consultation Report by replacing "the CRA" with "another entity".

Analyst

Redline Comparison between Consultation and Final Reports: "*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.*

Summary of Changes between 2008 Code and Final Report: The term "analyst" is defined in the 2008 Code as "[a] CRA employee who is primarily employed as a credit analyst". The definition of "analyst" is revised to improve clarity by providing greater detail on the responsibilities of a credit analyst.

Summary of Changes between Consultation and Final Reports: The definition of "analyst" is adopted as proposed in the Consultation Report.

Credit rating/Rating

Redline Comparison between Consultation and Final Reports: *"Credit rating" or "rating" means an assessment regarding the creditworthiness of an entity or obligation, expressed using an established and defined ranking system.*

Summary of Changes between 2008 Code and Final Report: The term "credit rating" is defined in the 2008 Code as "an opinion regarding the creditworthiness of an entity, a credit commitment, a debt or debt-like security or an issuer of such obligations, expressed using an established and defined ranking system". The definition of "credit rating" is revised to improve clarity by replacing "entity, a credit commitment, a debt or debt-like security or an issuer of such obligations" with "entity or obligation" (which are defined terms). In addition, the definition of "credit rating" is revised by replacing "opinion" with "assessment". This modification is intended to reflect the fact that under the provisions of the IOSCO CRA Code, CRAs should strive to determine credit ratings: (1) using methodologies that are rigorous, among other things; (2) that reflect all information known, and believed to be relevant at the time when the credit rating is determined; (3) using analysts that have appropriate knowledge and expertise; and (4) that are free of bias and not influenced by conflicts. The IOSCO CRA Code provisions call for policies, procedures, and controls all designed to ensure the credit rating process achieves these objectives. Thus, while the determination of a credit rating frequently involves subjective judgment, CRAs should establish processes that govern how credit ratings are determined.

Several CRA commenters argued that "opinion" rather than "assessment" better describes the nature of a credit rating. The use of the word "assessment" is not intended to reflect a changed view on the fundamental nature of a credit rating.[15] For example, certain CRA laws of IOSCO member jurisdictions define the term "credit rating," with some definitions using the word "opinion" and others using the word "assessment."[16] Moreover, at least one authoritative source defines the word "assessment" as, among other things, "the act of making a judgment about something…an idea or opinion about something"[17] As indicated above, the use of the word "assessment" is intended to focus the definition on the process that results in a credit rating – a process that under the provisions of the IOSCO CRA Code should be governed in a manner that is designed to result in the issuance of independent and high quality credit ratings.

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15 The IOSCO CRA Principles continue to refer to "opinions."

16 *See, e.g.*, Canadian securities legislation (using the word "assessment"); EU CRA Regulation, Article 3.1 lett. a) (using the word "opinion"); Hong Kong Securities and Futures Ordinance Schedule 5 (using the word "opinions"); Israeli Law to Regulate the Activity of Credit Rating Companies – 5774-2014, Article 1 (using the word "assessment"); Japanese Financial Instruments and Exchange Act, Article 2(34) (using the word "assessment"); United States 15 U.S.C. 78c(a)(60) (using the word "assessment").

17 *See* merriam-webster.com (defining the word "assessment"), *available at* http://www.merriam-webster.com/dictionary/assessment.

Summary of Changes between Consultation and Final Reports: The definition of "credit rating" is adopted as proposed in the Consultation Report.

Credit rating action

Redline Comparison between Consultation and Final Reports: *"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 ~~(or confirmation)~~ of an existing credit rating, or a withdrawal of a credit rating.*

Summary of Changes between 2008 Code and Final Report: The term "credit rating action" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: The definition of "credit rating action" is revised from the Consultation Report by deleting "(or confirmation)" after "an affirmation". This change responds to a CRA's comment that confirmations should not be included in the definition of "credit rating action" because they are typically the result of a request from the rated entity.

Credit rating agency

Redline Comparison between Consultation and Final Reports: *"Credit rating agency" or "CRA" means an entity that is in the business of issuing credit ratings.*

Summary of Changes between 2008 Code and Final Report: The term "credit rating agency" is defined in the 2008 Code as an entity "whose business is the issuance of credit ratings for the purposes of evaluating the credit risk of issuers of debt and debt-like securities". The definition of "credit rating agency" is revised to improve the provision's scope by deleting the prior limitation to entities whose purpose is "evaluating the credit risk of issuers of debt and debt-like securities".

Summary of Changes between Consultation and Final Reports: The definition of "credit rating agency" is adopted as proposed in the Consultation Report.

Credit rating methodology

Redline Comparison between Consultation and Final Reports: *"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 ~~process to be undertaken~~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.*

Summary of Changes between 2008 Code and Final Report: The term "credit rating methodology" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: The definition of "credit rating methodology" is revised from the Consultation Report to improve clarity by replacing "process to be undertaken" with "framework used".

Credit rating process

Redline Comparison between Consultation and Final Reports: *"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.*

Summary of Changes between 2008 Code and Final Report: The term "credit rating process" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: A CRA commented on the definition of "credit rating process" proposed in the Consultation Report, seeking changes to clarify the phrase "dissemination of the credit rating publicly or to subscribers". Accordingly, the definition of "credit rating process" is revised by adding

"as applicable" before the clause to clarify that "dissemination of a credit rating publicly" applies to ratings disseminated under an issuer-paid model and "dissemination…to subscribers" applies to ratings disseminated under a subscriber-paid model. The term "arranger" as used in the definition of "credit rating process" and elsewhere in the IOSCO CRA Code is intended to refer to a third party (*i.e.*, a person other than the rated entity or obligor) that organizes and structures a transaction for which a credit rating is procured, including interacting with the CRA producing the credit rating. In some cases, an originator or underwriter may also act as the arranger. It also may be the case that an originator or underwriter will interact with a CRA solely in their capacity as an originator or underwriter (*i.e.*, not as an arranger). Consequently, the definition of "credit rating process" and certain provisions of the IOSCO CRA Code refer to originators, underwriters, and arrangers, among other entities.

Employee

Redline Comparison between Consultation and Final Reports: *"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 ~~who~~, provided that such contractor is involved in the credit rating process.*

Summary of Changes between 2008 Code and Final Report: The term "employee" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: The definition of "employee" is revised from the Consultation Report to improve clarity by replacing "who" with "provided that such contractor".

Entity

Redline Comparison between Consultation and Final Reports: *"Entity" means a government; political subdivision, agency, or instrumentality of a government; or a company, corporation, partnership, trust, estate, or association.*

Summary of Changes between 2008 Code and Final Report: The term "entity" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: The definition of "entity" is adopted as proposed in the Consultation Report. One commenter asked to change the defined term from "entity" to "rated entity", but this change was not made because "entity" does not always refer to a rated entity in the IOSCO CRA Code (*e.g.*, in the definition of "obligor").

Trading instrument

Redline Comparison between Consultation and Final Reports: *"Trading instrument" means a security, money market instrument, derivative, or other similar product.*

Summary of Changes between 2008 Code and Final Report: The term "trading instrument" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: The definition of "trading instrument" is adopted as proposed in the Consultation Report.

Obligation

Redline Comparison between Consultation and Final Reports: *"Obligation" means a trading instrument, credit commitment, loan, or other similar product or transaction that has inherent credit risk.*

Summary of Changes between 2008 Code and Final Report: The term "obligation" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: The definition of "obligation" is adopted as proposed in the Consultation Report.

Obligor

Redline Comparison between Consultation and Final Reports: *"Obligor" means the entity that is legally or contractually obliged to make payments on a rated obligation.*

Summary of Changes between 2008 Code and Final Report: The term "obligor" is not defined in the 2008 Code.

Summary of Changes between Consultation and Final Reports: The definition of "obligor" is adopted as proposed in the Consultation Report.

New Provision 1.1

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: The first sentence of new Provision 1.1 introduces a new concept to the IOSCO CRA Code: having a credit rating methodology for all classes of entities and obligations the CRA rates. The second sentence of new Provision 1.1 is based on 2008 Code Provision 1.2. New Provision 1.1 is revised to improve clarity by replacing "A CRA should use rating methodologies that are" with "Each credit rating methodology should be"; and replacing "systematic" with "capable of being applied consistently".

Summary of Changes between Consultation and Final Reports: New Provision 1.1 was proposed as Provision 1.1 in the Consultation Report. Although the Consultation Report proposed deleting "where possible" from the 2008 text, new Provision 1.1, as adopted, adds this phrase back in response to written comments and a roundtable discussion with CRA industry members, in recognition that a CRA may not always be able to objectively validate a methodology based on historical experience (*e.g.*, for a new product).

New Provision 1.2

Redline Comparison between Consultation and Final Reports: *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 ~~analytical~~related reports it disseminates are based on a thorough analysis of all such information.*

Summary of Changes between 2008 Code and Final Report: The first sentence of new Provision 1.2 is based on the second clause of 2008 Code Provision 1.4, and the second sentence of new Provision 1.2 is based on 2008 Code Provision 1.1. New Provision 1.2 is revised to strengthen and clarify the provision by replacing "adopt, implement and enforce" with "establish, maintain, document, and enforce"; and replacing "written procedures" with "policies, procedures, and controls". New Provision 1.2 is revised to improve clarity by replacing "published methodology" with "applicable credit rating methodology that is in effect"; replacing "opinions" with "credit ratings and related reports"; and replacing "according to the CRA's published rating methodology" with "of all such information".

Summary of Changes between Consultation and Final Reports: New Provision 1.2 was proposed as Provision 1.2 in the Consultation Report. New Provision 1.2 is revised from the Consultation Report to improve comprehensiveness by replacing "analytical reports" with "related reports".

New Provision 1.3

Redline Comparison between Consultation and Final Reports: *~~The~~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 ~~assessment and is obtained from reliable sources.~~rating.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.3 is largely based on the third sentence of 2008 Code Provision 1.7. New Provision 1.3 is revised to strengthen and clarify the provision by adding "designed to ensure" after "reasonable measures"; adding "it has the appropriate knowledge and expertise" after "designed to ensure"; replacing "credible rating" with "high quality credit rating"; and adding that the rating should be based on information "obtained from reliable sources".

Summary of Changes between Consultation and Final Reports: New Provision 1.3 was proposed as Provision 1.3 in the Consultation Report. New Provision 1.3 is revised from the Consultation Report to strengthen and clarify the provision by adding "it has the appropriate knowledge and expertise, and that" after "designed to ensure that". New Provision 1.3 is further revised to improve clarity by moving the location of "obtained from reliable sources"; and replacing "high quality credit assessment" with "high quality credit rating". New Provision 1.3 retains the phrase "high quality" as proposed in the Consultation Report, rather than reverting to "credible" as suggested by one of the commenters, because "high quality" incorporates the concept of "credibility" (*i.e.*, to be of high quality the credit rating must be credible) as well as other concepts such as the credit rating being the product of a rigorous methodology.

New Provision 1.4

Redline Comparison between Consultation and Final Reports: *A CRA should avoid issuing credit ratings for entities or obligations for which it does not have appropriate ~~knowledge and expertise~~information, knowledge, and expertise. For example, where the complexity ~~or structure of a new type of structured finance product~~of a security or the structure of a type of security, or the lack of robust data about the assets underlying the ~~structured finance product~~security raise serious questions as to whether the CRA can determine a ~~credible~~high quality credit rating for the security, the CRA should refrain from issuing a credit rating.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.4 is based on the second sentence of 2008 Code Provision 1.7-3. New Provision 1.4 is revised to broaden the provision's scope by adding a general principle that applies to all securities instead of being limited to structured finance products; and by replacing "credible credit rating" with "high quality credit rating".

Summary of Changes between Consultation and Final Reports: New Provision 1.4 was proposed as the first paragraph of Provision 1.11 in the Consultation Report. This paragraph is moved from the Consultation Report's Provision 1.11 because it is more consistent with the heading "Quality of the Credit Rating Process" (where new Provision 1.4 is located) than with the heading "Integrity of the Credit Rating Process" (where the Consultation Report's Provision 1.11 was located). In response to a written comment, new Provision 1.4 is revised from the Consultation Report to replace "knowledge and expertise" with "information, knowledge, and expertise." In addition, for consistency with new Provision 1.3, new Provision 1.4 changes the standard from a "credible credit rating" to a "high quality credit rating".

New Provision 1.5

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.5 is based on 2008 Code Provision 1.3. New Provision 1.5 is revised to clarify the provision's scope by replacing "In assessing an issuer's creditworthiness" with "In assessing creditworthiness"; and replacing "analysts involved in the preparation or review of any rating action" with "analysts involved in the credit rating action". New Provision 1.5 is revised to improve clarity by replacing "methodologies established by the CRA" with "methodology established by the CRA for the type of entity or obligation"; replacing "Analysts should apply a given methodology" with "The credit rating methodology should be applied"; and replacing "consistent manner" with "manner that is consistent across all entities or obligations for which that methodology is used". New Provision 1.5 no longer specifies that the methodology is "as determined by the CRA" (as stated in 2008 Code Provision 1.3), because this phrase is already conceptually incorporated in new Provision 1.5's phrase "methodology established by the CRA".

Summary of Changes between Consultation and Final Reports: New Provision 1.5 is adopted as proposed in the Consultation Report's Provision 1.4 (except that the provision's numbering shifted due to the insertion of new Provision 1.4).

New Provision 1.6

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.6 is based on the third sentence of 2008 Code Provision 3.5(b). New Provision 1.6 is revised to improve clarity by replacing "clearly define" with "define"; replacing "given rating symbol" with "each category in its rating scales"; and replacing "all types of securities" with "all classes of rated entities and obligations".

Summary of Changes between Consultation and Final Reports: New Provision 1.6 is adopted as proposed in the Consultation Report's Provision 1.5 (except that the provision's numbering is shifted due the insertion of new Provision 1.4).

New Provision 1.7

Redline Comparison between Consultation and Final Reports: *Credit ratings should be assigned by the CRA as an entity (not by an analyst or other employee of the CRA).*

Summary of Changes between 2008 Code and Final Report: New Provision 1.7 is based on the first clause of 2008 Code Provision 1.4. New Provision 1.7 is revised to improve clarity by adding "as an entity" after "assigned by the CRA"; and replacing "analyst" with "analyst or other employee".

Summary of Changes between Consultation and Final Reports: New Provision 1.7 is adopted as proposed in the Consultation Report's Provision 1.6 (except that the provision's numbering is shifted due the insertion of new Provision 1.4).

New Provision 1.8

Redline Comparison between Consultation and Final Reports: ~~*The*~~*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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.8 is based on the third clause of 2008 Code Provision 1.4. New Provision 1.8 is revised to improve clarity by replacing "use people" with "assign analysts"; replacing "in developing a rating opinion" with "for assessing the creditworthiness"; and replacing "the type of credit being applied" with "the type of entity or obligation being rated."

Summary of Changes between Consultation and Final Reports: New Provision 1.8 is adopted as proposed in the Consultation Report's Provision 1.7 (except that "The CRA" is replaced with "A CRA", and the provision's numbering is shifted due the insertion of new Provision 1.4).

New Provision 1.9

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: The first sentence of new Provision 1.9 is based on 2008 Code Provision 1.5. New Provision 1.9 is revised to improve clarity by replacing "reasonable period of time" with "for as long as necessary to promote the integrity of the CRA's credit rating process…"; and replacing "records to support its credit opinions" with "records that are accurate and sufficiently detailed and comprehensive to reconstruct the credit rating process for a given credit rating action". "[O]r in accordance with applicable law" was removed, because the preamble to the IOSCO CRA Code already provides that laws and regulations in jurisdictions in which a CRA operates (*e.g.*, record making and retention requirements) take precedence over the IOSCO CRA

Code. The second sentence of new Provision 1.9 is a new concept stating that a CRA should establish, maintain, document, and enforce policies, procedures, and controls with respect to recordkeeping.

Summary of Changes between Consultation and Final Reports: New Provision 1.9 is adopted as proposed in the Consultation Report's Provision 1.8 (except that the provision's numbering is shifted due the insertion of new Provision 1.4). A commenter raised concerns about the burden of implementing internal audit, compliance, and quality control functions because these functions are mentioned in Provision 1.8 of the Consultation Report. However, this provision sets forth a principle relating to how long a CRA should maintain records – not the establishment of these functions. Moreover, as discussed below in the context of principles relating to internal functions, the form of a given internal function is expected to be affected by the CRA's size and complexity, and as such, an internal function may not necessarily operate as a separate office within the CRA.

New Provision 1.10

Redline Comparison between Consultation and Final Reports: *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*.

Summary of Changes between 2008 Code and Final Report: New Provision 1.10 is based on 2008 Code Provision 1.6. New Provision 1.10 is revised to enhance the provision by replacing "credit analyses or reports" with "credit ratings, analyses, or reports"; and replacing "issuer" with "rated entity". In addition, the standard in new Provision 1.10 is revised to improve clarity by replacing "should take steps" with "should establish, maintain, document, and enforce policies, procedures, and controls".

Summary of Changes between Consultation and Final Reports: New Provision 1.10 is adopted as proposed in the Consultation Report's Provision 1.9 (except that the provision's numbering is shifted due the insertion of new Provision 1.4).

New Provision 1.11

Redline Comparison between Consultation and Final Reports: *A CRA should ensure that it has and devotes sufficient resources to carry out and maintain high ~~quality credit assessments of the entities and obligations for which it issues and maintains~~ 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 ~~make a~~determine high quality credit ~~assessment~~ratings, and whether the analysts will have access to sufficient information ~~needed~~ in order to ~~make the assessment~~determine a high quality credit rating.

Summary of Changes between 2008 Code and Final Report: New Provision 1.11 is based on the first two sentences of 2008 Code Provision 1.7. New Provision 1.11 is revised to clarify the provision's scope by replacing "carry out high-quality credit assessments of all obligations and issuers it rates" with "carry out and maintain high quality credit ratings"; replacing "obligation or issuer" with "entity or obligation"; replacing "personnel" with "analysts" throughout the provision; removing "likely" before the phrase "will have access to sufficient information"; replacing "rate or continue rating" with "issue"; and replacing "sufficient skill sets to make a proper rating assessment" with "skill sets to make high quality credit ratings".

Summary of Changes between Consultation and Final Reports: New Provision 1.11 was proposed as Provision 1.10 in the Consultation Report (due to the insertion of new Provision 1.4). New Provision 1.11 is revised from the Consultation Report to improve clarity by replacing "make" with "determine"; and replacing "high quality credit assessments of the entities and obligations for which it issues and maintains credit ratings" with "high quality credit ratings". New Provision 1.11 retains the phrase "high quality" as proposed in the Consultation Report, rather than changing the standard to "credible" as suggested by one of the commenters, because "high quality" incorporates the concept of "credibility" (*i.e.*, to be of high quality the credit rating must be credible) as well as other concepts such as the credit rating being the product of a rigorous methodology.

New Provision 1.12

Redline Comparison between Consultation and Final Reports: *~~The~~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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.12 is based on 2008 Code Provision 1.7-1. New Provision 1.12 is revised to strengthen the provision and broaden its scope by adding that a CRA should maintain a review function (in addition to establishing it), and by applying the provision to all securities instead of being limited to structured finance products.

Summary of Changes between Consultation and Final Reports: New Provision 1.12 was proposed in the second paragraph of the Consultation Report's Provision 1.11. The provision is adopted as proposed in the Consultation Report (except that "The CRA" is replaced with "A CRA"). As discussed above, the first paragraph of the Consultation Report's Provision 1.11 is located in new Provision 1.4.

New Provision 1.13

Redline Comparison between Consultation and Final Reports: *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.

Summary of Changes between 2008 Code and Final Report: The first sentence of new Provision 1.13 is based on the first sentence of 2008 Code Provision 1.7-2. The first sentence of new Provision 1.13 is revised to strengthen and clarify the provision by replacing "establish and implement" with "establish and maintain"; adding that the review function should be "made up of one or more senior managers"; and replacing "rigorous and formal review" with "rigorous, formal, and periodic review, on a regular basis pursuant to an established timeframe". The first sentence of new Provision 1.13 is revised to improve clarity by replacing "methodologies and models and significant changes to the methodologies and models it uses" with "all aspects of the CRA's credit rating methodologies (including models and key assumptions) and significant changes to the credit rating methodologies".

The second sentence of new Provision 1.13 is based on the first sentence of 2008 Code Provision 1.7-3. The second sentence of new Provision 1.13 is revised to improve clarity by using the provision as an example; and replacing "structured product(s)" with "structured finance product(s)" throughout the provision.

The third sentence of new Provision 1.13 is based on the second sentence of 2008 Code Provision 1.7-2. The third sentence of new Provision 1.13 is revised to improve clarity by replacing "services" with "business"; and replacing "business lines that are principally responsible for rating various classes of issuers and obligations" with "employees who are principally responsible for determining credit ratings".

Summary of Changes between Consultation and Final Reports: New Provision 1.13 is adopted as proposed in the Consultation Report's Provision 1.12 (except that the provision's numbering is shifted due the insertion of new Provision 1.4). In response to a commenter's request for clarification regarding the "review function", the review function described here (relating to reviewing existing credit rating methodologies) should be distinguished from the review function referenced in new Provision 1.12 (relating to reviewing the feasibility of providing credit ratings for new types of entities or obligations).

New Provision 1.14

Redline Comparison between Consultation and Final Reports: *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.

Summary of Changes between 2008 Code and Final Report: New Provision 1.14 is based on 2008 Code Provision 1.8. New Provision 1.14 is revised to improve clarity by changing the context from the CRA "structur[ing] its rating teams" to "selecting the analyst or analysts who will participate in determining a credit rating"; and adding a second sentence providing an example of how the provision could be applied.

Summary of Changes between Consultation and Final Reports: New Provision 1.14 is adopted as proposed in the Consultation Report's Provision 1.13 (except that the provision's numbering is shifted due the insertion of new Provision 1.4).

New Provision 1.15

Redline Comparison between Consultation and Final Reports: *A CRA should ensure that sufficient employees and financial resources are allocated to monitoring and updating all its ~~credit ratings. Except for~~ credit ratings. Except for a credit rating that clearly ~~indicate they do~~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 ~~the~~ a change in the credit rating methodologies, models or key rating assumptions on the ~~affected~~relevant credit ratings within a reasonable period of time; ~~and~~

d. updating on a timely basis the credit rating, as appropriate, based on the results of such review~~.~~; and

e. ~~Monitoring of existing credit ratings should incorporate~~. incorporating all cumulative experience obtained. ~~Changes in credit rating methodologies should be applied to both initial credit ratings and subsequent credit rating actions.~~

Summary of Changes between 2008 Code and Final Report: New Provision 1.15 is based on 2008 Code Provision 1.9. New Provision 1.15 is revised to incorporate a new concept with respect to monitoring credit ratings by adding paragraph (c) relating to reviewing the impact of and applying changes in credit rating methodologies, models, or key rating assumptions. New Provision 1.15 is revised to improve clarity by replacing "adequate personnel" with "sufficient employees". New Provision 1.15 also contains grammatical and stylistic changes to improve clarity and readability.

Summary of Changes between Consultation and Final Reports: New Provision 1.15 was proposed as Provision 1.14 in the Consultation Report. (The provision's numbering is shifted due to the insertion of new Provision 1.4.) New Provision 1.15 is revised from the Consultation Report to strengthen the provision by replacing "reviewing the impact of" with "reviewing the impact of and applying" in paragraph (c). New Provision 1.15 is revised to improve clarity by incorporating the penultimate sentence of the Consultation Report's Provision 1.14 into paragraph (e). In addition, the last sentence of the Consultation Report's Provision 1.14 is deleted, because the definition of credit rating includes both initial and subsequent credit ratings.

New Provision 1.16

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.16 is based on 2008 Code Provision 1.9-1. New Provision 1.16 is revised to broaden its scope by applying the provision to all credit ratings instead of limiting it to structured finance products.

Summary of Changes between Consultation and Final Reports: New Provision 1.16 is adopted as proposed in the Consultation Report's Provision 1.15 (except that the provision's numbering is shifted due the insertion of new Provision 1.4).

New Provision 1.17

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.17 is a new provision in the IOSCO CRA Code.

Summary of Changes between Consultation and Final Reports: New Provision 1.17 was proposed as Provision 1.16 in the Consultation Report. New Provision 1.17 is revised from the Consultation Report to improve clarity by replacing "credit rating actions and reports" with "credit ratings that are the result or subject of credit rating actions and the related reports".

New Provision 1.18

Redline Comparison between Consultation and Final Reports: *A CRA and its employees should deal fairly and honestly with rated entities, obligors, originators, underwriters, arrangers, and users of credit ratings.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.18 is based on 2008 Code Provision 1.12. New Provision 1.18 is revised to clarify the provision's scope by replacing "issuers, investors, other market participants, and the public" with "rated entities, obligors, originators, underwriters, arrangers, and users of credit ratings".

Summary of Changes between Consultation and Final Reports: New Provision 1.18 was proposed as Provision 1.18 in the Consultation Report. New Provision 1.18 is revised from the Consultation Report to broaden the provision's scope by adding "originators" and "underwriters" to the list of entities with whom a CRA should deal fairly and honestly. As discussed in the explanatory notes accompanying new Provision 1.23, Provision 1.17 in the Consultation Report is deleted.

New Provision 1.19

Redline Comparison between Consultation and Final Reports: *A CRA's employees should be held to the highest standards of integrity and ethical behavior, and the CRA should ~~not employ~~have policies and procedures in place that are designed to ensure that individuals with demonstrably compromised integrity are not employed.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.19 is based on 2008 Code Provision 1.13. New Provision 1.19 is revised to enhance the provision by replacing "analysts" with "employees". New Provision 1.19 is revised to improve clarity by replacing "high standards of integrity" with "the highest standards of integrity and ethical behavior"; and by stating that "the CRA should have policies and procedures in place that are designed to ensure that individuals with demonstrably compromised integrity are not employed" instead of stating that "the CRA should not employ" such individuals.

Summary of Changes between Consultation and Final Reports: New Provision 1.19 was proposed as Provision 1.19 in the Consultation Report. New Provision 1.19 is revised from the Consultation Report to focus the provision on policies and procedures designed to achieve the objective of the proposed provision by stating that "the CRA should have policies and procedures in place that are designed to ensure that individuals with demonstrably compromised integrity are not employed" instead of stating that "the CRA should not employ" such individuals.

New Provision 1.20

Redline Comparison between Consultation and Final Reports: *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, ~~underwriter,~~ originator, ~~or~~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 ~~prospective assessments used in structured finance~~*

~~and similar transactions, provided that doing so does not impair the integrity of the credit rating process~~preliminary indications in a manner that is consistent with Provisions 1.22 and 2.6(d) of the IOSCO CRA Code.

Summary of Changes between 2008 Code and Final Report: New Provision 1.20 is based on 2008 Code Provision 1.14. New Provision 1.20 is revised to clarify its scope by identifying the parties who should not receive an assurance or guarantee (*i.e.*, "an entity subject to a rating action, obligor, originator, underwriter, arranger, or user of the CRA's credit ratings"); and to broaden its scope by applying the provision to all credit ratings instead of being limited to "structured finance and similar transactions". New Provision 1.20 is further revised to improve clarity by replacing "particular rating prior to a rating assessment" with "the outcome of a particular credit rating action"; and replacing "provided that doing so does not impair the integrity of the credit rating process" with "in a manner that is consistent with Provisions 1.22 and 2.6(d) of the IOSCO CRA Code".

Summary of Changes between Consultation and Final Reports: New Provision 1.20 was proposed as Provision 1.20 in the Consultation Report. New Provision 1.20 is revised from the Consultation Report to broaden the provision's scope by expanding the category of persons who should not receive an assurance or guarantee to include "user[s] of the CRA's credit ratings". In addition, New Provision 1.20 is revised from the Consultation Report to improve clarity by adding "subject to a rating action" after "entity"; and replacing "provided that doing so does not impair the integrity of the credit rating process" with "in a manner that is consistent with Provisions 1.22 and 2.6(d) of the IOSCO CRA Code".

New Provision 1.21

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.21 is a new provision in the IOSCO CRA Code.

Summary of Changes between Consultation and Final Reports: New Provision 1.21 was proposed as Provision 1.21 in the Consultation Report. New Provision 1.21 is revised from the Consultation Report to broaden the provision's scope by replacing "entities, obligors, underwriters, arrangers, or subscribers" with "rated entities, obligors, originators, underwriters, arrangers, or users of the CRA's credit ratings (*e.g.*, subscribers)".

New Provision 1.22

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.22 is based on 2008 Code Provision 1.14-1. New Provision 1.22 is revised to broaden the provision's scope by replacing "A CRA" with "A CRA and its employees"; and expanding the covered activities from "the design of structured finance products that a CRA rates" to "activities of rated entities or obligors that could impact a credit rating of the rated entity or obligation" and providing seven examples of such activities.

Summary of Changes between Consultation and Final Reports: New Provision 1.22 is adopted as proposed in the Consultation Report's Provision 1.22. However, in response to comments received, it would not be inconsistent with this provision for a CRA to explain the rationale for credit ratings it has issued.

New Provision 1.23

Redline Comparison between Consultation and Final Reports: *~~A~~In each jurisdiction in which a CRA operates, the CRA should establish, ~~and~~ maintain, document, and enforce policies, procedures, and controls designed to ensure ~~compliance~~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.*

Summary of Changes between 2008 Code and Final Report: The introductory paragraph of new Provision 1.23 is based on the first sentence of 2008 Code Provision 1.15, but broadens the focus from the "policies and procedures that clearly specify a person responsible for a CRA's and a CRA's employees' compliance" to "policies, procedures, and controls designed to ensure that the CRA and its employees comply". The introductory paragraph is also revised to strengthen and clarify the provision by replacing "institute" with "establish, maintain, document, and enforce".

New Provision 1.23(a)-(b) are new provisions in the IOSCO CRA Code. In response to comments received, Provision 1.17 in the Consultation Report is deleted, because new Provision 1.23(a)-(b) already address a CRA's compliance with applicable laws and regulations.

New Provision 1.23(c) is based on 2008 Code Provision 1.15. Paragraph (c) is revised to strengthen the provision by specifying that the responsible person should be the CRA's compliance officer who is "a senior level employee with the requisite skill set".

Summary of Changes between Consultation and Final Reports: New Provision 1.23 was proposed as Provision 1.23 in the Consultation Report. The introductory paragraph is revised from the Consultation Report to strengthen and clarify the provision by replacing "establish and maintain" with "establish, maintain, document, and enforce". The introductory paragraph is revised to further improve clarity by adding that the provision applies "[i]n each jurisdiction in which a CRA operates"; and by replacing "compliance" with "that the CRA and its employees comply".

New Provision 1.24

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 1.24 is based on 2008 Code Provision 1.16. New Provision 1.24 is revised to strengthen the provision and clarify its scope by replacing "rules and guidelines set forth" with "policies, procedures, and controls established, maintained, documented, and enforced". New Provision 1.24 is revised to further improve clarity by replacing "entity under common control" with "affiliate"; replacing "individual in charge of compliance" with "compliance officer"; replacing "CRA management should prohibit retaliation by other CRA staff or by the CRA itself" with "CRA should prohibit retaliation by the CRA or an employee".

Summary of Changes between Consultation and Final Reports: New Provision 1.24 is adopted as proposed in the Consultation Report's Provision 1.24.

New Provision 2.1

Redline Comparison between Consultation and Final Reports: *A CRA should not delay or refrain from ~~or unnecessarily delay~~ 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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.1 is based on 2008 Code Provision 2.1. New Provision 2.1 is revised to enhance the provision by replacing "issuer" with "rated entity"; and adding "obligor, underwriter, arranger". New Provision 2.1 is revised to improve clarity by replacing "forbear" with "delay".

Summary of Changes between Consultation and Final Reports: New Provision 2.1 was proposed as Provision 2.1 in the Consultation Report. In response to a CRA's comments, new Provision 2.1 is revised from the Consultation Report to clarify the provision by replacing "unnecessarily delay" with "delay". In addition, the term "originator" is added to the list of entities identified in the provision to improve its comprehensiveness.

New Provision 2.2

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.2 is based on 2008 Code Provision 2.2. New Provision 2.2 is revised to broaden the provision's scope by replacing "analysts" with "employees". New Provision 2.2 is revised to improve clarity by adding "the CRA's and its employees'" before "independence and objectivity".

Summary of Changes between Consultation and Final Reports: New Provision 2.2 is adopted as proposed in the Consultation Report's Provision 2.2.

New Provision 2.3

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.3 is based on 2008 Code Provision 2.3. New Provision 2.3 is revised to improve clarity by replacing "the credit assessment" with "assessing the creditworthiness of the rated entity or obligation".

Summary of Changes between Consultation and Final Reports: New Provision 2.3 is adopted as proposed in the Consultation Report's Provision 2.3.

New Provision 2.4

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.4 is based on 2008 Code Provision 2.4. New Provision 2.4 is revised to clarify the provision's scope by replacing "issuer or security" with "entity or obligation" (which are defined terms); replacing "the existence of or potential for a business relationship" with "whether there is an existing or potential business relationship"; replacing "issuer (or its affiliates)" with "rated entity, obligor, underwriter, or arranger (or any of their affiliates)"; and deleting "or the non-existence of such a relationship" at the end of the sentence.

Summary of Changes between Consultation and Final Reports: New Provision 2.4 was proposed as Provision 2.4 in the Consultation Report. The provision is modified from the Consultation Report to add the term "originator" to the list of entities identified in the provision to improve its comprehensiveness.

New Provision 2.5

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.5 is based on 2008 Code Provision 2.5. New Provision 2.5 is revised to strengthen and clarify the provision by replacing "separate, operationally and legally" with "operationally, legally, and, if practicable, physically separate"; and deleting "including consulting businesses". In addition, the second and third sentences of new Provision 2.5 are revised to improve clarity.

Summary of Changes between Consultation and Final Reports: New Provision 2.5 is adopted as proposed in the Consultation Report's Provision 2.5.

New Provision 2.6

Redline Comparison between Consultation and Final Reports: *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. ~~being part of a pool of CRAs that each provides~~providing a preliminary indication or similar indication of ~~a~~ credit ~~rating~~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.

Summary of Changes between 2008 Code and Final Report: New Provision 2.6 is based on 2008 Code Provision 2.6. New Provision 2.6 is revised to strengthen and clarify the provision by replacing "adopt written internal procedures and mechanisms" with "establish, maintain, document, and enforce policies, procedures, and controls"; replacing "opinions and analyses" with "credit rating methodologies, credit rating actions, or analyses"; replacing "individuals a CRA employs who have an influence on ratings decisions" with "CRA's employees"; and adding the paragraphs (a) through (e) to identify five types of potential CRA conflicts of interest that a CRA's conflicts policies, procedures, and controls should address (as applicable to the CRA's business model). In addition, the second sentence of 2008 Code Provision 2.6 was deleted because the provision already states that "actual or potential conflicts of interest" should be "manage[d] and disclose[d], as appropriate".

Summary of Changes between Consultation and Final Reports: New Provision 2.6 was proposed as Provision 2.6 in the Consultation Report. New Provisions 2.6(a), (c) and (d) are modified from the Consultation Report to add the term "originator" to the list of entities identified in the provisions to improve their comprehensiveness. .New Provision 2.6(d) is revised from the Consultation Report to clarify the provision's scope by replacing "preliminary indication of a credit rating" with "preliminary indication or similar indication of credit quality". New Provision 2.6(d) is revised to further improve clarity by replacing "being part of a pool of CRAs that each provides" with "providing"; and replacing "credit rating" with "final credit rating".

New Provision 2.7

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ 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, ~~the~~such conflict of interest should be disclosed in the same form and through the same means as the relevant credit rating ~~report or elsewhere, as appropriate~~action.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.7 is based on 2008 Code Provision 2.7. New Provision 2.7 is revised to strengthen the provision by adding "(including, but not limited to, those conflicts of interest identified in Principle 2.6 above)" as examples of actual or potential conflicts of interest; and by adding the second sentence as a new concept in the IOSCO CRA Code. New Provision 2.7 is revised to improve clarity by replacing "A CRA's disclosures of" with "A CRA should disclose".

Summary of Changes between Consultation and Final Reports: New Provision 2.7 was proposed as Provision 2.7 in the Consultation Report. New Provision 2.7 is revised from the Consultation Report by replacing "publicly disclose" with "disclose", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model. In response to written comments received, "underwriter" is replaced with "lead underwriter", because a CRA may not be aware of all underwriters associated with an offering since it may not have direct contractual relationships with each underwriter. New Provision 2.7 is modified from the Consultation Report to add the term "originator" to the list of entities identified in the provision to improve its comprehensiveness. In addition, new Provision 2.7 is revised to improve clarity by replacing "conflict" with "actual or potential conflict of interest"; replacing "unique" with "unique or specific to a credit rating"; and replacing "relevant credit rating report or elsewhere, as appropriate" with "same form and through the same means as the relevant credit rating action".

New Provision 2.8

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ 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 ~~fees~~compensation as a percentage of total ~~fees~~annual compensation received from ~~the~~such rated entity, obligor, lead underwriter, or arranger in the relevant credit rating report or elsewhere, as appropriate.*

b. *A CRA should ~~publicly~~ 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).*

Summary of Changes between 2008 Code and Final Report: New Provision 2.8 is based on 2008 Code Provision 2.8(a)-(b). New Provision 2.8 is revised to broaden the provision's scope by replacing "rated entity(ies)" with "rated entity(ies), obligor(s), lead underwriter(s), or arranger(s)" throughout the provision; replacing "ratings service, such as compensation for consulting services" with "credit rating services"; adding that the disclosure should occur "in the relevant credit rating report or elsewhere, as appropriate"; replacing "the proportion such non-rating fees constitute against the fees the CRA receives from the entity for ratings services" with "such unrelated compensation as a percentage of total annual compensation received from" such entities; and replacing "single issuer, originator, arranger, client or subscriber (including any affiliates of that issuer, originator, arranger, client or subscriber)" with "single client (*e.g.*, a rated entity, obligor, lead underwriter, arranger, or subscriber, or any of their affiliates)".

Summary of Changes between Consultation and Final Reports: New Provision 2.8 was proposed as Provision 2.8 in the Consultation Report. In response to written comments received, new Provision 2.8 is revised from the Consultation Report to replace "underwriter" with "lead underwriter" throughout the provision, because a CRA may not be aware of all underwriters associated with an offering since it may not have direct contractual relationships with each underwriter. New Provision 2.8 is modified from the Consultation Report to add the term "originator" to the list of entities identified in the provision to improve its comprehensiveness. In addition, "publicly disclose" is replaced with "disclose", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model. New Provision 2.8 is revised to improve clarity by replacing "fees" with "compensation" or "annual compensation", as applicable.

Commenters raised concerns that new Provision 2.8 does not explicitly identify an exception for conflicting local laws and regulations. However, the preamble to the IOSCO CRA Code continues to provide that laws and regulations in jurisdictions in which a CRA operates take precedence over the IOSCO CRA Code.

New Provision 2.9

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ 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. ~~If the information remains non-public, the CRA should encourage the issuer to publicly disclose the information.~~*

Summary of Changes between 2008 Code and Final Report: New Provision 2.9 is based on the second sentence of 2008 Code Provision 2.8(c). As discussed below, the first sentence of 2008 Code Provision 2.8(c) is deleted. New Provision 2.9 is revised to improve clarity by replacing "product" with "obligation".

Summary of Changes between Consultation and Final Reports: New Provision 2.9 was proposed as Provision 2.9 in the Consultation Report. New Provision 2.9 is revised from the Consultation Report to replace "publicly disclose" with "disclose", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model. The second sentence of the Consultation Report's Provision 2.9 is deleted in response to comments received that it is outside the scope of a CRA Code of Conduct. However, it should be noted that the deletion is not intended to derogate Principle 16 of IOSCO's Objectives and Principles of Securities Regulation, which provides that "[t]here should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions"[18] or Principle 3 of IOSCO's Final Report on Principles for Ongoing Disclosure for Asset-Backed Securities, which provides that "[p]eriodic and event-based disclosure should contain sufficient information in order to increase the transparency of information for investors and to allow investors to independently perform due diligence in their investment decisions regarding the specific ABS."[19]

New Provision 2.10

Redline Comparison between Consultation and Final Reports: *A CRA should not hold or transact in trading instruments presenting a conflict of interest with the CRA's credit rating activities.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.10 is based on 2008 Code Provision 2.9. New Provision 2.10 no longer covers a CRA's employees, because new Provision 2.14(a)-(f) already address conflicts arising from a CRA employee transacting in trading instruments. Further, "engage in any securities or derivatives trading" is replaced with "hold or transact in trading instruments" because "trading instrument" is now a defined term.

Summary of Changes between Consultation and Final Reports: New Provision 2.10 is adopted as proposed in the Consultation Report's Provision 2.10. In addition, although not explicitly stated in this provision, certain trading instruments such as diversified collective investment schemes may not pose a conflict of interest.

New Provision 2.11

Redline Comparison between Consultation and Final Reports: *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 ~~'s officials~~ (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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.11 is based on 2008 Code Provision 2.10. New Provision 2.11 is revised to enhance the provision by replacing "rated entities (*e.g.*, governments)" with

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[18] *See* IOSCO, Objectives and Principles of Securities Regulation (June 2010), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf.

[19] *See* IOSCO Technical Committee, Principles for Ongoing Disclosure for Asset-Backed Securities (Nov. 2012), *available at* http://www.iosco.org/library/pubdocs/pdf/IOSCOPD395.pdf.

"rated entities or obligors (*e.g.*, sovereign nations or states)" and to broaden the scope of CRA employees that should not be responsible for interacting with supervisors regarding supervisory matters by including employees involved in "developing or modifying credit rating methodologies" (not just employees involved in "credit rating actions. New Provision 2.11 is revised to improve clarity by replacing "the CRA should use different employees to conduct its rating actions than those employees involved in its oversight issues" with "employees responsible for interacting…that apply to such rated entity or obligor".

Summary of Changes between Consultation and Final Reports: New Provision 2.11 was proposed as Provision 2.11 in the Consultation Report. Provision 2.11 is revised from the Consultation Report to improve clarity by replacing "rated entity or obligor's officials" with "officials of the rated entity or the obligor"; and by adding "that apply to such rated entity or obligor" at the end of the sentence.

New Provision 2.12

Redline Comparison between Consultation and Final Reports: *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 ~~the~~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 ~~applied~~ have not compromised and do not compromise the objectivity of the CRA's credit rating process*.

Summary of Changes between 2008 Code and Final Report: New Provision 2.12 is based on 2008 Code Provision 2.11. New Provision 2.12 is revised to broaden the provision's scope by replacing "analyst(s)" with "employee(s)" throughout the provision; replacing "policies and practices" with "policies, procedures, and practices" throughout the provision; replacing the standard "analyst [who] rates or…regularly interacts" with the new standard "employee who participates in or who might otherwise have an effect on a credit rating action with respect to an entity or obligation"; replacing "rating process" with "credit rating action"; and adding "have not compromised and" before "do not compromise".

Summary of Changes between Consultation and Final Reports: New Provision 2.12 was proposed as Provision 2.12 in the Consultation Report. Provision 2.12 is revised to improve clarity by replacing "the entity or obligor" with "that entity or obligor"; adding "its" before "compensation policies"; and deleting "applied".

New Provision 2.13

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.13 is based on 2008 Code Provision 2.12. New Provision 2.13 is revised to strengthen the provision and broaden its scope by replacing "directly involved in the rating process" with "participate in or who might otherwise have an effect on a credit rating action"; and replacing "any entity [employees] rate" with "rated entity, obligor, arranger, or subscriber". New Provision 2.13 is revised to improve clarity by replacing "A CRA should not have employees" with "A CRA's employees" "should not"; and replacing "fees or payments" with "fees or payments charged to such rated entity, obligor, arranger, or subscriber".

Summary of Changes between Consultation and Final Reports: New Provision 2.13 is adopted as proposed in the Consultation Report's Provision 2.13 (except for a minor change replacing "CRA employees" with "A CRA's employees").

New Provision 2.14

Redline Comparison between Consultation and Final Reports: *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, ~~a close relative~~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 ~~an arranger or~~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. ~~Had~~Is currently employed by, or had a recent employment or other significant business relationship with the rated entity or obligor or ~~an arranger or~~a lead underwriter or arranger of the rated obligation that may cause or may be perceived as causing a conflict of interest;

f. ~~Currently works for or is~~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.

Summary of Changes between 2008 Code and Final Report: New Provision 2.14 is based on 2008 Code Provision 2.13. New Provision 2.14 is revised to broaden the provision's scope by replacing "employee" in the introductory paragraph with "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)". (Only 2008 Code Provision 2.13(d) specifically referenced "an immediate relation" as part of the standard.) New Provision 2.14 also replaces "[o]wns securities or derivatives" with "[h]olds or transacts in a trading instrument" throughout the provision, because "trading instrument" is now a defined term.

New Provision 2.14 divides the sets of conflicts identified in 2008 Code Provision 2.13(a)-(b) (relating to direct and indirect ownership of securities or derivatives of rated entities, or affiliates of rated entities) into three separately identified sets of conflicts in new Provision 2.14(a)-(c). This re-organization is intended to provide greater clarity with respect to the nature of each type of conflict that should be addressed. New Provision 2.14(a) addresses direct ownership or a trading instrument issued by a rated entity or obligor, whereas new Provision 2.14(b) addresses indirect ownership of such a trading instrument by, for example, owning a security that holds a security issued by a rated entity or obligor. New Provision 2.14(b) also addresses holding or transacting in a derivative that is based on a trading instrument issued by a rated entity or obligor. New Provision 2.14(b) also retains the exception for diversified collective investment schemes (*e.g.*, a broad-based index mutual fund that holds a bond issued by a rated entity). New Provision 2.14(c) addresses ownership of a trading instrument by an affiliate of a rated entity or obligor.

New Provision 2.14(d) identifies a new type of conflict of interest – holding or transacting in a trading instrument issued by a lead underwriter or arranger of the obligation.

2008 Code Provision 2.13(c)-(e) are re-designated as new Provision 2.14(e)-(g). The revisions modify 2008 Code Provision 2.13(c) (new Provision 2.14(e)) – which identifies the potential conflict of a CRA employee having an employment or business relationship with a rated entity – to expand the description of the potential conflict to include current or recent employment or other significant business relationships with the obligor, lead underwriter, or arranger of the obligation. The revisions to 2008 Code Provision 2.13(d) (new Provision 2.14(f)) – which identifies the potential conflict of a CRA employee's immediate relation working for a rated entity – expands the description of the potential conflict to include acting as a director of an obligor, or lead underwriter or arranger of the rated obligation. The revisions modify 2008 Code Provision 2.13(e) (new Provision 2.14(g)) – which is a catch-

all provision – to expand the description of the potential conflict to include relationships with or interests in the obligor, or the lead underwriter or arranger of the rated obligation.

Summary of Changes between Consultation and Final Reports: New Provision 2.14 was proposed as Provision 2.14 in the Consultation Report. Provision 2.14 is revised from the Consultation Report to clarify the provision's scope by replacing "obligation" with "rated obligation" throughout the provision; replacing "[h]ad a recent employment" with "[i]s currently employed by, or had a recent employment"; replacing "[c]urrently works for or is a director" with "[i]s a director"; and adding "or interest in" after "[h]as, or had, another relationship with". Although the Consultation Report proposed replacing "an immediate relation" with "a close relative", the Final Report settles on "an immediate family member" in response to written comments about the breadth and ambiguity of "a close relative". In addition, "underwriter" is replaced with "lead underwriter" throughout the provision, because a CRA may not be aware of all underwriters associated with an offering since it may not have direct contractual relationships with each underwriter.

New Provision 2.15

Redline Comparison between Consultation and Final Reports: *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*.

Summary of Changes between 2008 Code and Final Report: New Provision 2.15 is based on 2008 Code Provision 2.14. New Provision 2.15 is revised to improve the provision's clarity by replacing the exception in the first sentence "other than holdings in diversified collective investment schemes" with the second sentence of new Provision 2.15. In addition, it replaces "A CRA's analysts and anyone involved in the rating process (or their spouse, partner or minor children" with "A CRA analyst", because concerns about improper trading by an analyst's family members are addressed by new Provisions 3.19 and 3.21. In addition, "buy or sell or engage in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity" is replaced with "hold or transact in trading instruments" because "trading instrument" is now a defined term.

Summary of Changes between Consultation and Final Reports: New Provision 2.15 is adopted as proposed in the Consultation Report's Provision 2.15.

New Provision 2.16

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.16 is based on 2008 Code Provision 2.15. New Provision 2.16 is revised to broaden the provision's scope by adding "cash equivalents" (in addition to cash) as a form of gift that should be prohibited.

Summary of Changes between Consultation and Final Reports: New Provision 2.16 is adopted as proposed in the Consultation Report's Provision 2.16.

New Provision 2.17

Redline Comparison between Consultation and Final Reports: *A CRA employee who becomes involved in a personal relationship ~~that creates an actual or potential conflict of interest~~ (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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.17 is based on 2008 Code Provision 2.16. New Provision 2.17 is revised to broaden the provision's scope by replacing "[a]ny CRA analyst" with "[a] CRA employee"; replacing and moving the location of "that creates the potential for any real or apparent conflict of interest" to "that creates an actual or potential conflict of interest"; replacing "agent of [a rated] entity within his or

her area of analytic responsibility" with "obligor, or the lead underwriter or arranger of a rated obligation"; and replacing "the CRA's compliance policies" with "the CRA's policies, procedures, and controls". New Provision 2.17 is revised to improve clarity by replacing "appropriate manager or officer of the CRA" with "compliance officer or another officer of the CRA".

Summary of Changes between Consultation and Final Reports: New Provision 2.17 was proposed as Provision 2.17 in the Consultation Report. In response to written comments received, "underwriter" is replaced with "lead underwriter" throughout the provision, because a CRA may not be aware of all underwriters associated with an offering since it may not have direct contractual relationships with each underwriter. New Provision 2.17 is modified from the Consultation Report to add the term "originator" to the list of entities identified in the provision to improve its comprehensiveness. In addition, new Provision 2.17 is revised to improve clarity by moving the location of the phrase "that creates an actual or potential conflict of interest" to clarify that the parenthetical provides examples of personal relationships rather than examples of conflicts of interests.

New Provision 2.18

Redline Comparison between Consultation and Final Reports: *A CRA should establish, maintain, document, and enforce policies, procedures, and controls for reviewing without unnecessary delay the past work of an ~~employee who participated in the credit rating process~~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.*

Summary of Changes between 2008 Code and Final Report: New Provision 2.18 is based on 2008 Code Provision 2.17. New Provision 2.18 is revised to strengthen the provision and broaden its scope by replacing "establish policies and procedures" with "establish, maintain, document, and enforce policies, procedures, and controls"; adding that the review should occur "without unnecessary delay"; and replacing "join an issuer that the CRA analyst has had significant dealings" with "joins an entity that the employee participated in rating, an obligor whose obligation the employee participated in rating, an underwriter or arranger with which the employee had significant dealings…, or any of their affiliates".

Summary of Changes between Consultation and Final Reports: New Provision 2.18 was proposed as Provision 2.18 in the Consultation Report. New Provision 2.18 is modified from the Consultation Report to add the term "originator" to the list of entities identified in the provision to improve its comprehensiveness. In addition, new Provision 2.18 is revised to improve clarity by replacing "employee who participated in the credit rating process" with "analyst" (which is a defined term).

New Provision 3.1

Redline Comparison between Consultation and Final Reports: *A CRA should assist investors and other users of credit ratings in developing a greater understanding of credit ratings by ~~publicly~~ 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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.1 is based on 2008 Code Provision 3.5(c). New Provision 3.1 is revised to enhance the provision by replacing "investors" with "investors and other users of credit ratings"; and replacing "limits to which credit ratings can be put to use...and the limits to which the CRA verifies information provided to it by the issuer or originator of a rated security" with "the nature and limitations of credit ratings and the risks of unduly relying on them to make investment or other financial decisions". New Provision 3.1 is revised to improve clarity by replacing "a greater understanding of what a credit rating is" with "a greater understanding of credit ratings"; and replacing "clearly indicate" with "disclosing in plain language". In addition, new Provision 3.1 introduces a new concept in its second sentence, which provides that a CRA should not state or imply that a national or regional supervisor that oversees the CRA endorses the CRA's credit ratings or use the CRA's registration status to advertise the quality of its credit ratings.

Summary of Changes between Consultation and Final Reports: New Provision 3.1 was proposed as Provision 3.1 in the Consultation Report. "[P]ublicly disclosing" is replaced with "disclosing", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model.

New Provision 3.2

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ 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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.2 is based on parts of 2008 Code Provision 3.5's introductory paragraph. New Provision 3.2 is revised to clarify the provision's scope by replacing "procedures, methodologies and assumptions (including financial statement adjustments that deviate materially from those contained in the issuer's published financial statements and a description of the rating committee process, if applicable)" with "credit rating process and its credit rating methodologies" (which are defined terms). The language in 2008 Code Provision 3.5 regarding "financial statement adjustments" is now found in new Provision 3.16. New Provision 3.2 is revised to further improve clarity by replacing "outside parties" with "investors and other users of credit ratings"; and replacing "arrived at" with "determined".

Summary of Changes between Consultation and Final Reports: New Provision 3.2 was proposed as Provision 3.2 in the Consultation Report. "[P]ublicly disclose" is replaced with "disclose", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model.

New Provision 3.3

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ disclose ~~any~~a material modification to a credit rating methodology~~. Disclosure of the material modification should be made~~ 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. ~~The CRA should carefully consider the various uses of credit ratings before modifying a credit rating methodology.~~In either case, the CRA should disclose the material modification in a non-selective manner.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.3 is based on 2008 Code Provision 3.10. New Provision 3.3 is revised to improve the provision's clarity by deleting "because users of credit ratings rely on an existing awareness of CRA methodologies, practices, procedures and processes"; replacing "[w]here feasible and appropriate" with "unless doing so would negatively impact the integrity of a credit rating by unduly delaying the taking of a credit rating action"; and replacing "A CRA should carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes" with "In either case, the CRA should disclose the material modification in a non-selective manner". New Provision 3.3 is revised to improve clarity by replacing "fully and publicly disclose" with "disclose"; and replacing "methodologies, practices, procedures and processes" with "credit rating methodology", which is a defined term in the new IOSCO CRA Code.

Summary of Changes between Consultation and Final Reports: New Provision 3.3 was proposed as Provision 3.3 in the Consultation Report. New Provision 3.3 is revised to strengthen the provision and improve its clarity by deleting the sentence "[t]he CRA should carefully consider the various uses of credit ratings before modifying a credit rating methodology" because the relevance of such use to whether a credit rating methodology should be modified was unclear and to address comments that CRAs may not know all the uses of their credit ratings; and by adding the sentence with "[i]n either case, the CRA should disclose the material modification in a non-selective manner" to address a market participant's comment that there may be information asymmetries between arrangers and other market participants. This addition is not intended to require disclosure of proprietary or confidential information about the CRA or the rated entity. New Provision 3.3 is revised to further improve clarity by combining the first two sentences (as proposed in the Consultation Report) into a single sentence. In addition, "publicly disclose" is replaced with "disclose", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model.

New Provision 3.4

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ disclose its policies~~,~~ and procedures~~, and controls~~ that ~~are unique to~~address the issuance of unsolicited credit ratings.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.4 is based on the third sentence of 2008 Code Provision 3.9. New Provision 3.4 is revised to improve clarity by replacing "regarding unsolicited ratings" with "that address the issuance of unsolicited credit ratings".

Summary of Changes between Consultation and Final Reports: New Provision 3.4 was proposed as Provision 3.4 in the Consultation Report. New Provision 3.4 is revised by replacing "policies, procedures, and controls" with "policies and procedures" to address comments that disclosing information about "policies and procedures" provides users of credit ratings with critical information with which to assess the CRA's governance of this activity and that including in the disclosures information about individual controls could make the disclosure too long and less helpful. "[P]ublicly disclose" is replaced with "disclose", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model. In addition, new Provision 3.4 is revised to improve clarity by replacing "are unique to" with "address".

New Provision 3.5

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ disclose its policies~~,~~ and procedures~~, and controls~~ for distributing credit ratings and reports, and for when a credit rating will be withdrawn.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.5 is based on 2008 Code Provision 3.2. New Provision 3.5 is revised to broaden the provision's scope by replacing "policies" with "policies and procedures". In addition, "ratings, reports, and updates" is replaced with "credit ratings and reports, and for when a credit rating will be withdrawn", but this change is not intended to be substantive, because the definition of "credit rating" includes credit rating updates.

Summary of Changes between Consultation and Final Reports: New Provision 3.5 was proposed as Provision 3.5 in the Consultation Report. New Provision 3.5 is revised by replacing "policies, procedures, and controls" with "policies and procedures" to address comments that disclosing information about "policies and procedures" provides users of credit ratings with critical information with which to assess the CRA's governance of this activity and that including in the disclosures information about individual controls could make the disclosure too long and less helpful. "[P]ublicly disclose" is replaced with "disclose", because new Provision 5.4 already states that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model.

New Provision 3.6

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ disclose clear definitions of the meaning of each category in its rating scales, including the definition of default.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.6 is based on the second sentence of the introductory paragraph of 2008 Code Provision 3.5. New Provision 3.6 is revised to improve the provision's clarity by replacing "the definition of default or recovery, and the time horizon the CRA used when making a rating decision" with "including the definition of default and adding "clear definitions of" before "the meaning of"; and replacing "each rating category" with "each category in its rating scale".

Summary of Changes between Consultation and Final Reports: New Provision 3.6 was proposed as Provision 3.6 in the Consultation Report. "[P]ublicly disclose" is replaced with "disclose", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model. In response to one CRA's recommendation to delete the reference to default because not all CRAs rate to default, a CRA that does not issue a default rating would define its equivalent category. In addition, CRAs have the option to explain the deviation from the IOSCO CRA Code pursuant to new Provision 5.2.

New Provision 3.7

Redline Comparison between Consultation and Final Reports: *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 ~~publicly~~ disclose how this differentiation functions.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.7 is based on the first two sentences of 2008 Code Provision 3.5(b). New Provision 3.7 is revised to improve clarity by replacing "traditional corporate bond ratings" with "credit ratings of other types of entities or obligations"; and replacing "different rating symbology" with "different credit rating identifier".

Summary of Changes between Consultation and Final Reports: New Provision 3.7 was proposed as Provision 3.7 in the Consultation Report. "[P]ublicly disclose" is replaced with "disclose", because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code, as applicable given the CRA's business model.

New Provision 3.8

Redline Comparison between Consultation and Final Reports: *A CRA should be transparent with investors, rated entities, obligors, originators, underwriters, and arrangers about how the relevant entity or obligation is rated.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.8 is a new provision in the IOSCO CRA Code.

Summary of Changes between Consultation and Final Reports: New Provision 3.8 was proposed Provision 3.8 in the Consultation Report. New Provision 3.8 is modified from the Consultation Report to add the term "originator" to the list of entities identified in the provision to improve its comprehensiveness. In response to a CRA's comment that new Provision 3.8 is redundant with new Provision 3.2, new Provision 3.2 is intended to address disclosures regarding a CRA's general processes, while new Provision 3.8 is intended to address disclosures regarding a specific rated entity or obligation.

New Provision 3.9

Redline Comparison between Consultation and Final Reports: *Where feasible and appropriate, a CRA should inform the rated entity, or the obligor~~, underwriter,~~ or arranger of the rated obligation about the critical information and principal considerations upon which a credit rating will be based prior to ~~taking~~disseminating a credit rating that is the result or subject of the credit rating action and afford ~~the~~such rated entity, obligor, ~~underwriter,~~ or arranger an adequate opportunity to clarify any factual errors, factual omissions, or ~~other~~factual misperceptions that would have a material effect on the credit rating. The CRA should duly evaluate any response from ~~the~~such rated entity, obligor, ~~underwriter,~~ or arranger. Where in particular circumstances the CRA has not informed ~~the~~such rated entity, obligor, or arranger prior to ~~taking~~disseminating a credit rating action, the CRA should inform ~~the~~such rated entity, obligor, or arranger as soon as practical thereafter and, generally, should explain why the CRA did not inform ~~the~~such rated entity, obligor, or arranger prior to ~~taking~~disseminating the credit rating action.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.9 is based on 2008 Code Provision 3.7. New Provision 3.9 is revised to strengthen the provision and improve its clarity by replacing "opportunity" with "adequate opportunity"; replacing "likely factual misperceptions or other matters" with "factual errors, factual omissions, or factual misperceptions"; and replacing "that the CRA would wish to be made aware of in order to produce an accurate rating" with "that would have a material effect on the credit rating". New Provision 3.9 is revised to further improve clarity by replacing and moving the location of "prior to issuing or revising a rating" to "prior to disseminating a credit rating that is the result or subject of the credit rating action"; replacing "issuing or revising a rating" with "taking a credit rating action"; and replacing "the reason for the delay" with "why the CRA did not inform such rated entity, obligor, or arranger prior to taking the credit rating action". In addition, "issuer" is replaced with "rated entity, or the obligor or arranger of the rated obligation" or "rated entity, obligor, or arranger" throughout the provision. Although this global change is intended to expand the scope of communication recipients, disclosures should continue to be restricted to the entity that pays for the credit rating (and their agents).

Summary of Changes between Consultation and Final Reports: New Provision 3.9 was proposed as Provision 3.9 in the Consultation Report. New Provision 3.9 is revised to improve clarity by replacing "taking" with "disseminating" throughout the provision; replacing "credit rating action" with "credit rating that is the result or

subject of the credit rating action"; and replacing "factual errors, omissions, or other misperceptions" with "factual errors, factual omissions, or factual misperceptions". "[U]nderwriter" is deleted throughout the provision because it is overly broad to recommend that an underwriter (that is not also acting as an arranger) be informed about non-public information regarding a credit rating (and also for internal consistency with the last sentence of the provision which does not reference underwriters).

New Provision 3.10

Redline Comparison between Consultation and Final Reports: *~~A~~When a CRA ~~should~~ publicly ~~disclose~~discloses or ~~distribute~~distributes to its subscribers (depending on the CRA's business model) a credit rating ~~action~~that is the result or subject of the credit rating action, it should do so as soon as practicable after ~~reaching the rating decision~~taking such action.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.10 is based on 2008 Code Provision 3.1. New Provision 3.10 is revised to strengthen the provision by replacing "in a timely manner" with "as soon as practicable after taking such action". New Provision 3.10 is revised to improve clarity by replacing "distribute" with "publicly discloses or distributes to its subscribers (depending on the CRA's business model)"; and replacing "ratings decisions" with "credit rating that is the result or subject of the credit rating action".

Summary of Changes between Consultation and Final Reports: New Provision 3.10 was proposed as Provision 3.10 in the Consultation Report. New Provision 3.10 is revised to improve clarity by replacing "credit rating action" with "credit rating that is the result or subject of the credit rating action"; and replacing "reaching the rating decision" with "taking such action". New Provision 3.10 is also revised to better take into account CRAs' differing business models (*i.e.*, issuer-paid and subscriber-paid models).

Certain commenters requested that an exception be added to this provision for private ratings. This comment was not incorporated because the IOSCO CRA Code applies to all types of credit ratings. However, to the extent that a CRA believes it would be appropriate to deviate from a provision of the IOSCO CRA Code because of the nature of the credit rating, the CRA should explain the deviation from the IOSCO CRA Code pursuant to new Provision 5.2.

New Provision 3.11

Redline Comparison between Consultation and Final Reports: *~~A~~When a CRA ~~should~~ publicly ~~disclose~~discloses or ~~distribute~~distributes to its subscribers (depending on the CRA's business model) a credit rating ~~action~~that is the result or subject of a credit rating action, it should do so on a non-selective basis.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.11 is based on 2008 Code Provision 3.4. New Provision 3.11 is revised to broaden the provision's scope and improve its clarity by deleting "[e]xcept for 'private ratings' provided only to the issuer"; deleting "free of charge" as part of the edits to take into account CRAs' differing business models (*i.e.*, issuer-paid and subscriber-paid models); deleting "if the rating action is based in whole or in part on material non-public information"; and replacing "any rating regarding publicly issued securities, or public issuers themselves, as well as any subsequent decisions to discontinue such a rating" with "a credit rating that is the result or subject of a credit rating action".

Summary of Changes between Consultation and Final Reports: New Provision 3.11 was proposed as Provision 3.11 in the Consultation Report. New Provision 3.11 is revised to improve clarity by replacing "credit rating action" with "credit rating that is the result or subject of a credit rating action".

Certain commenters requested that an exception be added back to this provision for private ratings. This comment was not incorporated because the IOSCO CRA Code applies to all types of credit ratings. However, to the extent that a CRA believes it would be appropriate to deviate from a provision of the IOSCO CRA Code because of the nature of the credit rating, the CRA should explain the deviation from the IOSCO CRA Code pursuant to new Provision 5.2.

New Provision 3.12

Redline Comparison between Consultation and Final Reports: *A CRA should disclose with a credit rating that is the result or subject of a credit rating action whether the rated entity, ~~or the~~ 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, ~~or the~~ obligor, or originator, or the underwriter~~,~~ or arranger of the rated obligation should be identified as such.

Summary of Changes between 2008 Code and Final Report: New Provision 3.12 is based on the first two sentences of 2008 Code Provision 3.9. New Provision 3.12 is revised to broaden the provision's scope by replacing "issuer" with "rated entity, obligor, or originator, or the underwriter or arranger of the rated obligation" throughout the provision. New Provision 3.12 is revised to improve clarity by replacing "[f]or each rating" with "with a credit rating that is the result or subject of a credit rating action".

Summary of Changes between Consultation and Final Reports: New Provision 3.12 was proposed as Provision 3.12 in the Consultation Report. New Provision 3.12 is modified from the Consultation Report to add the term "originator" to the list of entities identified in the provision to improve its comprehensiveness. In addition, new Provision 3.12 is revised to improve clarity by replacing "credit rating action" with "credit rating that is the result or subject of a credit rating action".

In response to a written comment, it should be noted that this provision is not intended to prejudice the public against unsolicited ratings, but to ensure that users of credit ratings are provided with relevant information.

New Provision 3.13

Redline Comparison between Consultation and Final Reports: *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, ~~or the~~ 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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.13 is based on the second sentence of 2008 Code Provision 3.5(c). New Provision 3.13 is revised to broaden the provision's scope by replacing "issuer or originator of a rated security" with "rated entity, obligor, or originator, or the underwriter or arranger of the rated obligation". New Provision 3.13 is revised to improve clarity by replacing "credit opinion" with "credit rating" (which is a defined term); and replacing "limits to which" with "extent to which". In addition, a second sentence is added, which provides an example of a limitation that would warrant disclosure.

Summary of Changes between Consultation and Final Reports: New Provision 3.13 was proposed as Provision 3.13 in the Consultation Report. New Provision 3.12 is modified from the Consultation Report to add the term "originator" to the list of entities identified in the provision to improve its comprehensiveness.

New Provision 3.14

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.14 is based on 2008 Code Provision 3.3. New Provision 3.14 is revised to broaden the provision and improve its clarity by replacing "last updated" with "last updated or reviewed"; and adding "and other users of credit ratings" after "investors". New Provision 3.14 is revised to further improve clarity by replacing "with each of its ratings" with "in the announcement of a credit rating that is the result or the subject of a credit rating action"; deleting "other" before the first instance of "important aspects of the credit rating"; and adding "to find" after "indicate where".

Summary of Changes between Consultation and Final Reports: New Provision 3.14 was proposed as Provision 3.14 in the Consultation Report. New Provision 3.14 is revised to improve clarity by replacing "credit rating action" with "credit rating that is the result or the subject of a credit rating action". Although a CRA commented that

"updated or reviewed" should be replaced with "reviewed", the language proposed in the Consultation Report is retained because "updated or reviewed" provides more clarity than "reviewed".

New Provision 3.15

Redline Comparison between Consultation and Final Reports: *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 ~~easily~~ 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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.15 is based on 2008 Code Provision 3.5(a). New Provision 3.15 is revised to enhance the provision by replacing "an investor allowed to invest in the product" with "investors in the product, other users of credit ratings, and/or subscribers". New Provision 3.15 is revised to improve clarity by replacing "[w]here" with "[w]hen" at the beginning of the provision; replacing "provide investors and/or subscribers" with "publicly disclose or distribute to its subscribers"; adding "with the credit rating" after "cash-flow analysis"; replacing "disclose" with "publicly disclose or distribute"; and replacing "CRA's underlying rating assumptions" with "assumptions underlying the applicable credit rating methodology".

Summary of Changes between Consultation and Final Reports: New Provision 3.15 was proposed as Provision 3.15 in the Consultation Report. New Provision 3.15 is revised to improve the provision's clarity by adding "in the product" after "investors". Although "easily understand" is replaced with "understand" in response to comments about the standard's ambiguity, new Provision 5.1 provides that disclosures be complete, fair, accurate, timely, and understandable. In the case of new Provision 3.15, the disclosure should be consistent with new Provision 5.1 taking into account the level of sophistication of the investors in the product and others who may evaluate the product.

New Provision 3.16

Redline Comparison between Consultation and Final Reports: *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 ~~rated entity, obligor, or arranger's~~ published financial statements of the relevant rated entity or obligor.*

Summary of Changes between 2008 Code and Final Report: The first clause of new Provision 3.16 is based on 2008 Code Provision 3.6. New Provision 3.16 is revised to improve clarity by replacing "press releases and reports" with "announcement and/or report"; replacing "key elements" with "key assumptions and data"; and replacing "credit opinion" with "credit rating" (which is a defined term).

The second clause of new Provision 3.16 is based on the parenthetical in the introductory paragraph of 2008 Code Provision 3.5 (which addresses disclosures regarding a specific credit rating rather than a CRA's general processes). New Provision 3.16 is revised to broaden the provision's scope by replacing "issuer[]" with "relevant rated entity or obligor". The language in 2008 Code Provision 3.5 regarding "the rating committee process" is now incorporated into new Provision 3.2.

Summary of Changes between Consultation and Final Reports: New Provision 3.16 was proposed as Provision 3.16 in the Consultation Report. New Provision 3.16 is revised by deleting the reference to "arranger" because an arranger's financial statements generally are not relevant to the rated entity or obligor's credit rating.

New Provision 3.17

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.17 is based on 2008 Code Provision 1.10. New Provision 3.17 is revised to broaden the provision's scope by replacing "issuer" with "rated entity"; replacing "last updated" with "last updated or reviewed"; and adding "the reason the credit rating is no longer monitored". New Provision 3.17 is revised to improve clarity by combining the first two sentences of 2008 Code Provision 1.10 into a single sentence; replacing "discontinues rating" with "discontinues monitoring"; and replacing "continuing publications by the CRA of the discontinued rating" with "[a] publication by the CRA of a credit rating that is no longer being monitored".

Summary of Changes between Consultation and Final Reports: New Provision 3.17 is adopted as proposed in the Consultation Report's Provision 3.17 (except that a comma is deleted after the word "obligation"). Although a CRA commented that an exemption from announcing discontinued ratings should be added for debt that has matured or expired, the language proposed in the Consultation Report is retained because users may not always be aware when a credit rating is discontinued or expired, such that the public benefit is expected to outweigh the burden of announcing a discontinued rating. In addition, although a CRA commented that "updated or reviewed" should be replaced with "reviewed", the language proposed in the Consultation Report is retained because "updated or reviewed" provides more clarity than "reviewed". As noted in the preamble to IOSCO CRA Code, regional and national laws and regulations governing the activities of CRAs take precedence over the IOSCO CRA Code, and consequently, new Provision 3.17 is not intended to derogate from any applicable law requiring a CRA to disclose that it has decided to discontinue a credit rating and the reasons for the decision.

New Provision 3.18

Redline Comparison between Consultation and Final Reports: *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 ~~and structured~~ over a ~~range~~period of ~~years~~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 ~~a~~such historical transition or default ~~rate~~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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.18 is based on 2008 Code Provision 3.8. New Provision 3.18 is revised to strengthen the provision by deleting "where possible" in the first sentence regarding disclosures of sufficient information. New Provision 3.18 is revised to improve clarity by replacing "the market" with "investors and other users of credit ratings"; replacing "best judge" with "compare"; replacing "performance of the ratings" with "performance of different CRAs" for internal consistency with the second sentence of new Provision 3.18; replacing "publish" with "disclose"; replacing "historical default rates…and whether the default rates of these categories have changed over time" with "historical transition and default rates"; adding "with respect to the classes of entities and obligations it rates" in the first sentence; replacing "organized and structured" with "organized over a period of time"; and replacing "investors in drawing performance comparisons between different CRAs" with "investors or other users of credit ratings, the CRA should disclose why this is the case". In addition, the clause about the purpose of this provision being to allow "interested parties…to understand the historical performance of each category" is deleted because it is unnecessary text even though that is a purpose of the provision.

Summary of Changes between Consultation and Final Reports: New Provision 3.18 was proposed as Provision 3.18 in the Consultation Report. In response to a CRA's comment, the phrase "organized and structured over a range of years" is replaced with "organized over a period of time" to clarify the provision.

New Provision 3.19

Redline Comparison between Consultation and Final Reports: *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, ~~or the~~ 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 ~~action~~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 ~~with the rated entity, obligor, underwriter, or arranger~~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, ~~underwriter,~~ arranger, or their designated agents, or as required by applicable law or regulation.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.19 is based on 2008 Code Provisions 3.11, 3.12, 3.13, 3.16, and 3.17. The introductory paragraph of new Provision 3.19 is based on the first part of 2008 IOSCO Code Provision 3.11. New Provision 3.19's introductory paragraph is revised to strengthen the provision by replacing "adopt procedures and mechanisms" with "establish, maintain, document, and enforce policies, procedures, and controls"; and replacing "confidential nature of information…shared confidentially" with "confidential and/or material non-public information…about a credit rating action". New Provision 3.19's introductory paragraph is revised to improve clarity by adding an example of confidential or material non-public information.

New Provision 3.19(a) is based on 2008 IOSCO Code Provisions 3.12 and 3.17. New Provision 3.19(a) is revised to strengthen the provision by adding a focus on the CRA's "policies, procedures, and controls"; replacing "confidential information" with "confidential and/or material non-public information"; and replacing "in accordance with any confidential agreements with the issuer" with "required by applicable law or regulation" (which is intended to include confidential agreements through the application of contract law). New Provision 3.19(a) is revised to improve clarity by replacing "'as needed' basis" with "where the disclosure is not necessary in connection with the CRA's credit rating activities".

New Provision 3.19(b) is based on 2008 IOSCO Code Provision 3.13. New Provision 3.19(b) is revised to strengthen the provision by adding a focus on the CRA's "policies, procedures, and controls"; adding that confidential information should be protected from "inadvertent disclosure" (in addition to fraud, theft, or misuse); and replacing "property and records" with "confidential and/or material non-public information" since relevant property (*i.e.*, intellectual property) and records are intended to be included within the terms "confidential and/or material non-public information." New Provision 3.19(b) is revised to improve clarity by replacing "reasonable steps" with "reasonable measures".

New Provision 3.19(c) is based on 2008 IOSCO Code Provision 3.11. New Provision 3.19(c) is revised to broaden the provision's scope by replacing "issuer" with "rated entity, obligor, originator, underwriter, or arranger"; and replacing "procedures and mechanisms" with "policies, procedures, and controls". New Provision 3.19(c) is revised to improve clarity by replacing "a confidential agreement or otherwise under a mutual understanding that the information is shared confidentially" with "any applicable agreement or mutual understanding that the CRA will keep the information confidential, unless disclosure is required by applicable law or regulation".

New Provision 3.19(d) is based on 2008 IOSCO Code Provision 3.16. New Provision 3.19(d) is revised to improve the provision's scope by adding a focus on the CRA's "policies, procedures, and controls"; replacing "issuer" with "rated entity, obligor, arranger"; and adding an exception "as required by applicable law or regulation". New Provision 3.19(d) is revised to improve clarity by replacing "rating opinions or possible future rating actions" with "pending credit rating action".

Summary of Changes between Consultation and Final Reports: New Provision 3.19 was proposed as Provision 3.19 in the Consultation Report. New Provision 3.19 is modified from the Consultation Report to add the term "originator" to the list of entities identified in the prefatory text and paragraph (c) to improve its comprehensiveness. in addition, new Provision 3.19 is revised by deleting "underwriter" from paragraph (d), as it does not seem appropriate or necessary to provide information regarding a pending rating action to an underwriter. New Provision 3.19 is revised to improve clarity by replacing "credit rating action before the action" with "credit rating action before the credit rating"; and in response to a CRA's written comment, replacing "understanding with the rated entity, obligor, underwriter, or arranger" with "mutual understanding that the CRA will keep the information confidential".

In response to written comments, paragraph (a) is not intended to preclude a CRA from providing confidential and/or material non-public information to its legal department as appropriate. Further, regarding paragraph (b), "inadvertent disclosure" is intended to include employee actions that result in disclosures despite the employee's good faith intent. Regarding paragraph (d), "law or regulation" is intended to include subpoenas issued by judicial authorities.

New Provision 3.20

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.20 is a new provision in the IOSCO CRA Code.

Summary of Changes between Consultation and Final Reports: New Provision 3.20 is adopted as proposed in the Consultation Report's Provision 3.20.

New Provision 3.21

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 3.21 is based on 2008 Code Provisions 3.14 and 3.18. New Provision 3.21 is revised to strengthen the provision and broaden its scope by adding a focus on the CRA's "policies, procedures, and controls"; replacing "confidential information" with "confidential and/or material non-public information"; replacing "securities" with "trading instrument" throughout the provision; and adding "using the information to advise or otherwise advantage another person in transacting in the trading instrument". In addition, 2008 Code Provision 3.18's phrase regarding "the conduct of the CRA's business" is now addressed in new Provision 3.19(a).

Summary of Changes between Consultation and Final Reports: New Provision 3.21 is adopted as proposed in the Consultation Report's Provision 3.21. Although a CRA suggested that the policies, procedures, and controls should be "designed to prohibit" instead of "prohibit" the misuse of confidential and/or material non-public information, the language proposed in the Consultation Report is retained because the suggested language does not work in the context of this provision (*i.e.*, something is either prohibited or not prohibited).

New Provision 4.1

Redline Comparison between Consultation and Final Reports: *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*.

Summary of Changes between 2008 Code and Final Report: New Provision 4.1 is a new provision in the IOSCO CRA Code.

Summary of Changes between Consultation and Final Reports: New Provision 4.1 is adopted as proposed in the Consultation Report's Provision 4.1. In response to a CRA's request for clarification about the meaning of "ultimate responsibility", the phrase is intended to be interpreted consistently with a Board's oversight responsibilities (rather than management's daily responsibilities).

New Provision 4.2

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 4.2 is a new provision in the IOSCO CRA Code.

Summary of Changes between Consultation and Final Reports: New Provision 4.2 is adopted as proposed in the Consultation Report's Provision 4.2.

New Provision 4.3

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 4.3 is based, in part, on 2008 Code Provision 3.15, which stated that a CRA's employees should be familiar with the CRA's securities trading policies. The revisions are intended to significantly expand 2008 Code Provision 3.15 to provide that the CRA should establish policies, procedures, and controls requiring formal ongoing training at reasonably regular time intervals (and to identify the subject matter of these trainings). With respect to securities trading policies (the focus of 2008 Code Provision 3.15), new Provision 4.3 is revised to strengthen the provision and broaden its scope by replacing "internal securities trading" with "the holding and transacting in trading instruments"; and replacing "periodically certify their compliance as required by such policies" with "policies, procedures, and controls should include measures designed to verify that employees undergo required training".

Summary of Changes between Consultation and Final Reports: New Provision 4.3 is adopted as proposed in the Consultation Report's Provision 4.3. In response to a CRA's comment, this provision is not intended to impose a prescriptive "one size fits all" approach. The training policies, procedures, and controls should be tailored to the CRA's size, the complexity of its activities, and its business model.

New Provision 5.1

Redline Comparison between Consultation and Final Reports: *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.*

Summary of Changes between 2008 Code and Final Report: New Provision 5.1 is a new provision in the IOSCO CRA Code.

Summary of Changes between Consultation and Final Reports: New Provision 5.1 was proposed as Provision 5.1 in the Consultation Report. In response to a CRA's comment, new Provision 5.1 is revised to improve the standard's clarity by adding "to investors and other users of credit ratings" after "complete, fair, accurate, timely, and understandable". Although another CRA recommended replacing "understandable" with "in plain language" for consistency with new Provision 3.1, the language proposed in the Consultation Report is retained for consistency with new Provision 3.15.

New Provision 5.2

Redline Comparison between Consultation and Final Reports: *A CRA should ~~publicly~~ disclose with its code of conduct ~~and describe~~ 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.*

Summary of Changes between 2008 Code and Final Report: New Provision 5.2 is based on 2008 Code Provision 4.1. New Provision 5.2 is revised to strengthen the provision by replacing "generally how it intends to enforce" with "how it implements and enforces". New Provision 5.2 is revised to improve clarity by replacing "explain where and why these deviations exist" with "identify the relevant IOSCO provision, explain the reason for the deviation"; and replacing "on a timely basis" with "as soon as practicable".

Summary of Changes between Consultation and Final Reports: New Provision 5.2 was proposed as Provision 5.2 in the Consultation Report. New Provision 5.2 is revised from the Consultation Report to delete the provision to disclose the CRA's code of conduct because new Provision 5.4 already requires the CRA to publicly disclose its code of conduct. In addition, with respect to the other matters in new Provision 5.2 that should be disclosed, "publicly disclose" is replaced with "disclose" because new Provision 5.4 already provides that a CRA make publicly available on its primary website any disclosures specified in the IOSCO CRA Code.

New Provision 5.3

Redline Comparison between Consultation and Final Reports: *A CRA should establish and maintain a function within its organization charged with receiving, retaining, and handling ~~questions, concerns or~~ complaints from market participants and the public. The function should establish, maintain, document, and enforce policies, procedures, and controls for receiving, retaining, and handling ~~questions, concerns, and~~ complaints, including those that are provided on a confidential basis. The policies, procedures, and controls should specify the circumstances under which a ~~question, concern, or~~ complaint must be reported to senior management and/or the board (or similar body).*

Summary of Changes between 2008 Code and Final Report: New Provision 5.3 is based on 2008 Code Provision 4.2. New Provision 5.3 is revised to strengthen the provision and refine its scope by replacing "establish" with "establish and maintain"; replacing "questions, concerns or complaints" with "complaints"; and adding the second sentence regarding the function's responsibility for policies, procedures, and controls. New Provision 5.3 is revised to improve clarity by replacing "communicating" with "receiving, retaining, and handling"; and replacing the second sentence of 2008 Code Provision 4.2 with the third sentence of new Provision 5.3.

Summary of Changes between Consultation and Final Reports: New Provision 5.3 was proposed as Provision 5.3 in the Consultation Report. New Provision 5.3 is revised by replacing "questions, concerns or complaints" with "complaints" in response to a CRA's comment that it would be impracticable to centralize the many questions and concerns received on a daily basis. In response to another CRA's concerns about the provision's impact on smaller

CRAs, the form of the "function" is expected to be affected by the CRA's size and complexity, and as such, "function" does not necessarily refer to a separate office within the CRA.

New Provision 5.4

Redline Comparison between Consultation and Final Reports: *A CRA should ~~make readily accessible~~publicly and prominently disclose free of charge on its ~~public~~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 appropriate~~ as applicable given the CRA's business model.

Summary of Changes between 2008 Code and Final Report: New Provision 5.4 is based on 2008 Code Provision 4.3. New Provision 5.4 is revised to strengthen the provision and improve its clarity by replacing "publish in a prominent position on its home webpage links" with "publicly and prominently disclose free of charge on its primary website"; and adding paragraph (d) regarding "any other disclosures specified in the provisions of the IOSCO CRA Code, as applicable given the CRA's business model."

Summary of Changes between Consultation and Final Reports: New Provision 5.4 was proposed as Provision 5.4 in the Consultation Report. New Provision 5.4 is revised to improve clarity by replacing "make readily accessible on its public website" with "publicly and prominently disclose free of charge on its primary website" (in response to CRA comments regarding the ambiguity of "readily accessible"); and replacing "as appropriate" with "as applicable given the CRA's business model".

Appendix A: New IOSCO CRA Code

CODE OF CONDUCT FUNDAMENTALS FOR CREDIT RATING AGENCIES

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").[1] 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.[2] 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.[3]

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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1 *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.

2 *See id.*

3 *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.[4] 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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[4] 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:[5]

- "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.

[5] 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.