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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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IOSCO consults on changes to Code of Conduct for Credit Rating Agencies

The International Organization of Securities Commissions (IOSCO) has today published for consultation its report on *The Role of Credit Rating Agencies In Structured Finance Markets* which includes proposed changes to the Code of Conduct Fundamentals for Credit Rating Agencies (Code of Conduct).

The report, prepared by IOSCO's Technical Committee which is composed of securities regulators from the major developed capital markets, discusses the role of credit rating agencies (CRAs) in the recent credit crisis and proposes ways to strengthen processes and procedures at CRAs. In particular, the report proposes expanding upon the Code of Conduct provisions relating to the quality and integrity of the rating process; CRA independence and avoidance of conflicts of interest; CRA responsibilities to the investing public and issuers; and disclosure of the CRA's code of conduct and communication with market participants.

Michel Prada, Chairman of IOSCO's Technical Committee, said:

“IOSCO, having completed its review of its Code of Conduct Fundamentals for Credit Rating Agencies, is proposing significant changes to the current code. These changes are required in order to ensure that investors and the financial markets can have confidence that CRAs are producing clear, well-researched ratings, free from bias which can be easily understood by their users.

“The role played by credit rating agencies in the development of the market for structured finance products has raised serious issues for regulators globally, and I believe that these

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changes to IOSCO's Code of Conduct will contribute to addressing some of the issues that the current crisis has exposed in relation to the ratings system.”

The consultation report proposes making the following revisions under three main areas of the Code of Conduct:

Quality and Integrity of the Rating Process – Code of Conduct Section 1

Key proposed changes in this area require that CRAs should:

- ensure that the decision-making process for reviewing and potentially downgrading a rating of a structured finance product is conducted in an objective manner;
- establish an independent function responsible for periodic reviews of the firm's rating methodologies and models;
- take reasonable steps to ensure that the information they use is of sufficient quality to support a credible rating. Ratings involving products with limited historical data should have these limitations made clear;
- refrain from rating a product if the complexity or structure of a new type of rating creates doubts about the feasibility of a rating action;
- prohibit analysts from making proposals or recommendations regarding the design of structured finance products that the CRA rates.

CRA Independence and Avoidance of Conflicts of Interest - Code of Conduct section 2

Key proposed changes in this area require that CRAs should:

- establish policies and procedures for reviewing the work of analysts who leave to join an issuer the CRA rates, or a financial firm with which the CRA has significant dealings;
- conduct formal and periodic reviews of remuneration policies and practices for its employees to ensure that these policies do not compromise the CRA's rating process;

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- disclose whether any one client and its affiliates make up more than 10 percent of the CRA's annual revenue;
- define what it considers and does not consider to be an ancillary business and why.

CRA Responsibilities to the Investing Public and Issuers - Code of Conduct section 3

Key changes in this area will require that CRAs should:

- assist investors in understanding what a credit rating is, the attributes and limitations of each credit opinion, and the limits to which it verifies information provided to it by the issuer of a rated security;
- indicate if it receives break-up fees for a preliminary assessment, even if it does not subsequently rate on the product;
- when rating a structured finance product, provide investors/subscribers with the information to understand the basis for the CRA's rating;
- disclose whether it uses a separate set of rating symbols for rating structured finance products, and why;
- disclose the methodology or methodology version in use in determining a rating.

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NOTES FOR EDITORS

1. The consultation paper *The Role of Credit Rating Agencies In Structured Finance Markets* is available on the IOSCO [website](#).
2. IOSCO published its [Review of Implementation of the IOSCO Fundamentals of a Code of Conduct for Credit Rating Agencies, Report of the Technical Committee of IOSCO](#) in February 2007. [Responses](#) to the consultation were published on IOSCO's website in May 2007.
3. IOSCO's upcoming [Annual Conference](#) will be hosted by the Autorité Marché des Financiers in Paris from 26 to 29 May 2008.
4. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of fifteen agencies that regulate some of the worlds larger, more developed and internationalized markets. Its objective is to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns. Mr. Michel Prada, Chairman of the Autorité des Marchés Financiers (AMF) of France, currently acts as Chairman of the Technical Committee. The members of the IOSCO Technical Committee are: the Australian Securities and Investments Commission; Autorité des Marchés Financiers, France; Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Germany; Commissione Nazionale per la Società e la Borsa, Italy; Securities and Futures Commission, Hong Kong; Financial Services Agency, Japan; Comisión Nacional Bancaria y de Valores, Mexico; Autoriteit Financiële Markten, the Netherlands; Securities Commission, Ontario; Autorité des Marchés Financiers, Quebec; Comisión Nacional del Mercado de Valores, Spain; Commission Fédérale des Banques, Switzerland; Financial Services Authority, United Kingdom; Securities and Exchange Commission, United States and; Commodity Futures Trading Commission, United States.
5. The Technical Committee can also create, on an ad hoc basis, task forces to examine specific areas of concern. There are currently separate task forces working on the areas of corporate governance, credit rating agencies, private equity and audit services.
6. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's wide membership regulates more than 90% of the world's securities markets and IOSCO is the world's most important international cooperative forum for securities regulatory agencies. IOSCO members regulate more than one hundred jurisdictions and the Organization's membership is steadily growing.
7. IOSCO aims through its permanent structures:
 - to cooperate together to promote high standards of regulation in order to maintain just, efficient and sound markets;

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- to exchange information on their respective experiences in order to promote the development of domestic markets;
- to unite their efforts to establish standards and an effective surveillance of international securities transactions;
- to provide mutual assistance to promote the integrity of the markets by a rigorous application of the standards and by effective enforcement against offenses.

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