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IOSCO UPDATE ON CREDIT RATING AGENCIES OVERSIGHT

The International Organization of Securities Commissions' (IOSCO) Task Force on Credit Rating Agencies (Task Force) has today published the results of its work reviewing credit rating agency (CRA) implementation of IOSCO's *Code of Conduct Fundamentals for Credit Rating Agencies* (IOSCO CRA Code). IOSCO is also publishing a Note being sent to the G-20 and Financial Stability Forum regarding the use of the IOSCO CRA Code as the basis for international oversight of CRAs and mechanisms by which regulators can help assure adequate cross-border supervision of globally active CRAs.

Implementation of the IOSCO CRA Code

Implementation of the IOSCO CRA Code by CRAs through their own codes of conduct amounts to a public statement by CRAs of the extent to which they agree with the international regulatory consensus. Investors can make judgments about CRAs and the quality of their ratings based on the degree to which they have decided to adhere to this consensus i.e. implementation of the IOSCO CRA Code in their own code of conduct.

To assist investors and other interested parties in determining whether CRAs have implemented the IOSCO CRA Code, IOSCO has published a report analysing the extent to which CRAs around the world have incorporated the IOSCO CRA Code provisions into their codes of conduct. The report has found that a larger proportion of the CRAs reviewed were aware of the IOSCO CRA Code, and have taken steps to incorporate its provisions into their codes of conduct, than when they were previously surveyed for IOSCO's first implementation review in 2007. This is an encouraging sign that all CRAs, regardless of size and methodologies, are more aware of the concerns surrounding the credit rating industry and are taking steps to address these concerns. The results of the Task Force review were that:

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- The review found that seven out of the 21 CRAs reviewed had implemented the 2008 IOSCO CRA Code provisions:
 - The three largest CRAs – Fitch, Moody’s and Standard & Poors – have substantially implemented the revisions of the IOSCO CRA Code;
 - The Japan Credit Rating Agency is in complete compliance with the IOSCO CRA Code, while Rating & Investment Information deviates with respect to one provision for which it provides an explanation;
 - Fedafin Federalism and Finance AG of Switzerland has also adopted the 2008 IOSCO CRA Code revisions; and
 - Dominion Bond Rating Service substantially incorporates the IOSCO CRA Code with a few exceptions.
- Two CRAs, Austin Ratings and Euler Hermes Rating, intend to update their codes of conduct in the near future.
- 14 of the CRAs reviewed did not address the 2008 revisions of the IOSCO CRA Code. A number of factors may have contributed to this including the proposed EU regulations, resource constraints and the fact that the 2008 revisions were aimed at structured finance products which does not necessarily apply to CRAs who do not offer these ratings.

It should be noted that of the 14 CRAs who did not implement the 2008 IOSCO CRA Code, 11 of them had partially or substantially implemented the 2004 IOSCO CRA Code. This is a significant improvement from 2007 when the largest group of CRAs reviewed (35) had not published any Code of Conduct.

The IOSCO CRA Code as the basis for international oversight

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IOSCO believes that in addition to serving as the foundation for CRAs' codes of conduct, the IOSCO CRA Code serves as a template for regulation, thereby facilitating a convergence of approaches to CRA regulation by individual jurisdictions. In this way, conflicts of law can be avoided, and common expectations with regard to CRA global activity will be more easily satisfied. Several jurisdictions are in the process of establishing CRA regulation based on the IOSCO CRA Code, including Australia, Canada, the European Union and Japan.

Supervision of globally-active CRAs

- IOSCO has developed a model examination module to be used, as appropriate, by those IOSCO members that regulate and inspect CRAs. This model will help create a common understanding of the types of information that regulators around the world might find useful when inspecting a CRA against regulatory requirements based on the IOSCO CRA Code.

At its recent February meeting IOSCO discussed, and will continue to explore, the options presented regarding supervisory colleges and/or bilateral cooperation arrangements and their possible use in the oversight of CRAs. These arrangements would be particularly useful for the largest CRAs whose operations are global. Through the supervisory colleges and/or bilateral arrangements, regulators would be able to get a more complete picture of a CRA's operations.

A copy of the Note setting out the options for international supervision is attached.

Permanent IOSCO CRA Committee

The IOSCO Task Force on Credit Rating Agencies, which developed the IOSCO CRA Code and other CRA-related projects, is being converted into a permanent standing committee of IOSCO's Technical Committee. This committee will serve two purposes:

1. reviewing and updating the international regulatory consensus regarding CRA oversight; and
2. serving as a forum for regular interaction between regulators and CRAs.

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This permanent committee will allow IOSCO to keep abreast of the developments in the CRA industry, as well as facilitate convergence of regulatory approaches to CRAs.

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NOTES FOR EDITORS

1. [A Review of Implementation of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies](#), Report of the Technical Committee of IOSCO is available on the IOSCO website.
2. [Note on International Cooperation in Oversight of Credit Rating Agencies](#) is available on the IOSCO website.
3. The revised [Code of Conduct Fundamentals for Credit Rating Agencies](#) is available on the IOSCO website.
4. IOSCO's first [Review Of Implementation Of The IOSCO Fundamentals Of A Code Of Conduct For Credit Rating Agencies](#), was published in February 2007.
5. IOSCO is recognized as the leading international policy forum for securities regulators. The organization's wide membership regulates more than 95% of the world's securities markets and IOSCO is the international cooperative forum for securities regulatory agencies. IOSCO members regulate more than one hundred jurisdictions and its membership is steadily growing.
6. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of fifteen agencies that regulate some of the world's 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. Ms. Kathleen Casey, Commissioner of the United States Securities and Exchange Commission is the Chairman of the Technical Committee. The members of the Technical Committee are the securities regulatory authorities of Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, Ontario, Quebec, Spain, Switzerland, United Kingdom and the United States.
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;
 - 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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