

**National Instrument 25-101**  
***Designated Rating Organizations***

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**National Instrument 25-101**  
***Designated Rating Organizations***

**PART 1        DEFINITIONS AND INTERPRETATION**

**1.        Definitions**

In this Instrument

“board of directors” means, in the case of a designated rating organization that does not have a board of directors, a group that acts in a capacity similar to a board of directors;

“compliance officer” means the compliance officer referred to in section 12;

“code of conduct” means the code of conduct referred to in Part 4 of this Instrument and may include, for greater certainty, one or more codes;

“designated rating organization” means a credit rating organization that has been designated under securities legislation;

“DRO affiliate” means an affiliate of a designated rating organization that issues credit ratings in a foreign jurisdiction and that has been designated as a DRO affiliate under the terms of the designated rating organizations’ designation;

“DRO employee” means an individual, other than an employee or agent of a DRO affiliate, who is

- (a)        employed by a designated rating organization, or
- (b)        an agent who provides services directly to the designated rating organization and who is involved in determining, approving or monitoring a credit rating issued by the designated rating organization;

“Form NRSRO” means the annual certification on Form NRSRO, including exhibits, required to be filed by an NRSRO under the 1934 Act;

“NRSRO” means a nationally recognized statistical rating organization, as defined in the 1934 Act;

“rated entity” means a person or company that is issuing, or that has issued, securities that are the subject of a credit rating issued by a designated rating organization and includes a person or company that made a submission to a designated rating organization for the designated rating organization’s initial review or for a preliminary rating but did not request a final rating;

“rated securities” means the securities issued by a rated entity that are the subject of a credit rating issued by a designated rating organization;

“ratings employee” means any DRO employee who participates in determining, approving or monitoring a credit rating issued by the designated rating organization;

“related entity” means in relation to an issuer of a structured finance product, an originator, arranger, underwriter, servicer or sponsor of the structured finance product or any person or company performing similar functions;

“structured finance product” means any of the following:

- (a) a security that entitles the security holder to receive payments that primarily depend on the cash flow from self-liquidating financial assets collateralizing the security, such as loans, leases, mortgages, and secured or unsecured receivables, including:
  - (i) an asset-backed security;
  - (ii) a collateralized mortgage obligation;
  - (iii) a collateralized debt obligation;
  - (iv) a collateralized bond obligation;
  - (v) a collateralized debt obligation of asset-backed securities;
  - (vi) a collateralized debt obligation of collateralized debt obligations;
- (b) a security that entitles the security holder to receive payments that substantially reference or replicate the payments made on one or more securities of the type described in paragraph (a) but that do not primarily depend on the cash flow from self-liquidating financial assets that collateralize the security, including:
  - (i) a synthetic asset-backed security;
  - (ii) a synthetic collateralized mortgage obligation;
  - (iii) a synthetic collateralized debt obligation;
  - (iv) a synthetic collateralized bond obligation;
  - (v) a synthetic collateralized debt obligation of asset-backed securities;
  - (vi) a synthetic collateralized debt obligation of collateralized debt obligations.

## 2. Interpretation

Except in a CMR Jurisdiction, Nothing ~~nothing~~ in this Instrument is to be interpreted as regulating the content of a credit rating or the methodology a credit rating organization uses to determine a credit rating.

[Note: In a CMR Jurisdiction, section 2 is not required because section 19 [Restriction re credit ratings procedures, etc.] of the *Capital Markets Act* imposes a substantially similar restriction.]

### 3. Affiliate

- (1) In this Instrument, a person or company is an affiliate of another person or company if either of the following apply:
  - (a) one of them is the subsidiary of the other;
  - (b) each of them is controlled by the same person or company.
- (2) For the purposes of paragraph (1)(b), a person or company (first person) is considered to control another person or company (second person) if any of the following apply:
  - (a) the first person beneficially owns, or controls or directs, directly or indirectly, securities of the second person carrying votes which, if exercised, would entitle the first person to elect a majority of the directors of the second person, unless that first person holds the voting securities only to secure an obligation;
  - (b) the second person is a partnership, other than a limited partnership, and the first person holds more than 50% of the interests of the partnership;
  - (c) the second person is a limited partnership and the general partner of the limited partnership is the first person.

### 4. Credit rating

~~In British Columbia, credit rating means an assessment that is publicly disclosed or distributed by subscription concerning the creditworthiness of an issuer,~~

- ~~(a) as an entity, or~~
- ~~(b) with respect to specific securities or a specific pool of securities or assets. [Intentionally Blank]~~

### 5. Market participant in Ontario

~~In Ontario, a DRO affiliate is deemed to be a market participant. [Intentionally Blank]~~

## PART 2 DESIGNATION OF RATING ORGANIZATIONS

### 6. Application for designation

- (1) A credit rating organization that applies to be a designated rating organization must file a completed Form 25-101F1.
- (2) Despite subsection (1), a credit rating organization that is an NRSRO may file its most recent Form NRSRO.

- (3) A credit rating organization that applies to be a designated rating organization that is incorporated or organized under the laws of a foreign jurisdiction and does not have an office in Canada must file a completed Form 25-101F2.
- (4) Any person or company that will be a DRO affiliate upon the designation of a credit rating agency that does not have an office in Canada must file a completed Form 25-101F2.

## **PART 3 BOARD OF DIRECTORS**

### **7. Board of directors**

A designated rating organization must not issue a credit rating unless it, or a DRO affiliate that is a parent of the designated rating organization, has a board of directors.

### **8. Composition**

- (1) For the purposes of section 7, a board of directors of a designated rating organization, or the board of directors of the DRO affiliate that is a parent of the designated rating organization, as the case may be, must be composed of a minimum of three members.
- (2) At least one-half, but not fewer than two, of the members of the board of directors must be independent of the organization and any DRO affiliate.
- (3) For the purposes of subsection (2), a member of the board of directors is not considered independent if the director
  - (a) other than in his or her capacity as a member of the board of directors or a board committee, accepts any consulting, advisory or other compensatory fee from the designated rating organization or a DRO affiliate;
  - (b) is a DRO employee or an employee or agent of a DRO affiliate;
  - (c) has a relationship with the designated rating organization that could, in the opinion of the board of directors, be reasonably expected to interfere with the exercise of a director's independent judgment; or
  - (d) has served on the board of directors for more than five years in total.
- (4) For the purposes of paragraph 3(c), in forming its opinion, the board of directors is not required to conclude that a member is not independent solely on the basis that the member is, or was, a user of the designated rating organization's rating services.

## **PART 4 CODE OF CONDUCT**

### **9. Code of conduct**

- (1) A designated rating organization must establish, maintain and comply with a code of conduct.
- (2) A designated rating organization's code of conduct must incorporate each of the provisions set out in Appendix A.

### **10. Filing and publication**

- (1) A designated rating organization must file a copy of its code of conduct and post a copy of it prominently on its website promptly upon designation.
- (2) Each time an amendment is made to a code of conduct by a designated rating organization, the amended code of conduct must be filed, and prominently posted on the organization's website, within five business days of the amendment coming into effect.

### **11. Waivers**

A designated rating organization's code of conduct must specify that a designated rating organization must not waive provisions of its code of conduct.

## **PART 5 COMPLIANCE OFFICER**

### **12. Compliance officer**

- (1) A designated rating organization must not issue a credit rating unless it, or a DRO affiliate that is a parent of the designated rating organization, has a compliance officer that monitors and assesses compliance by the designated rating organization and its DRO employees with the organization's code of conduct and with securities legislation.
- (2) The compliance officer must regularly report on his or her activities directly to the board of directors.
- (3) The compliance officer must report to the board of directors as soon as reasonably possible if the compliance officer becomes aware of any circumstances indicating that the designated rating organization or its DRO employees may be in non-compliance with the organization's code of conduct or securities legislation and any of the following apply:
  - (a) the non-compliance would reasonably be expected to create a significant risk of harm to a rated entity or the rated entity's investors;
  - (b) the non-compliance would reasonably be expected to create a significant risk of harm to the capital markets;

- (c) the non-compliance is part of a pattern of non-compliance.
- (4) The compliance officer must not, while serving in such capacity, participate in any of the following:
  - (a) the development of credit ratings, methodologies or models;
  - (b) the establishment of compensation levels, other than for DRO employees reporting directly to the compliance officer.
- (5) The compensation of the compliance officer and of any DRO employee that reports directly to the compliance officer must not be linked to the financial performance of the designated rating organization or its DRO affiliates and must be determined in a manner that preserves the independence of the compliance officer's judgment.

## **PART 6 BOOKS AND RECORDS**

### **13. Books and records**

- (1) A designated rating organization must keep such books and records and other documents as are necessary to account for the conduct of its credit rating activities, its business transactions and financial affairs and must keep such other books, records and documents as may otherwise be required under securities legislation.
- (2) A designated rating organization must retain the books and records maintained under this section
  - (a) for a period of seven years from the date the record was made or received, whichever is later;
  - (b) in a safe location and a durable form; and
  - (c) in a manner that permits it to be provided promptly to the securities regulatory authority upon request.

## **PART 7 FILING REQUIREMENTS**

### **14. Filing requirements**

- (1) No later than 90 days after the end of its most recently completed financial year, each designated rating organization must file a completed Form 25-101F1.
- (2) Upon any of the information in a Form 25-101F1 filed by a designated rating organization becoming materially inaccurate, the designated rating organization must promptly file an amendment to, or an amended and restated version of, its Form 25-101F1.

- (3) Until six years after it has ceased to be a designated rating organization in any jurisdiction of Canada, a designated rating organization must file a completed amended Form 25-101F2 at least 30 days before
  - (a) the termination date of Form 25-101F2, or
  - (b) the effective date of any changes to Form 25-101F2.
- (4) Until six years after it has ceased to be a DRO affiliate in any jurisdiction of Canada, a DRO affiliate must file a completed amended Form 25-101F2 at least 30 days before
  - (a) the termination date of Form 25-101F2, or
  - (b) the effective date of any changes to Form 25-101F2.

## **PART 8 EXEMPTIONS AND EFFECTIVE DATE**

### **15. Exemptions**

- (1) The regulator or the securities regulatory authority may grant an exemption from the provisions of this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.
- (2) ~~Despite subsection (1), in Ontario, only the regulator may grant an exemption.~~  
[Intentionally Blank]
- (3) ~~Except in Ontario, a~~ An exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

### **16. Effective date**

~~This Instrument comes into force on April 20, 2012.~~ [Intentionally Blank]



**Appendix A**  
***Provisions Required to be Included in a Designated Rating Organization's Code of Conduct***

**1. INTERPRETATION**

- 1.1 A term used in this code of conduct has the same meaning as in National Instrument 25-101 *Designated Rating Organizations* if used in that Instrument.

**2. QUALITY AND INTEGRITY OF THE RATING PROCESS**

**A. Quality of the rating process**

**I General requirements**

- 2.1 A designated rating organization must adopt, implement and enforce procedures in its code of conduct to ensure that the credit ratings it issues are based on a thorough analysis of all information known to the designated rating organization that is relevant to its analysis according to its rating methodologies.
- 2.2 A designated rating organization must include a provision in its code of conduct that it will use only rating methodologies that are rigorous, systematic, continuous and subject to validation based on experience, including back-testing.

**II Specific provisions**

- 2.3 Each ratings employee involved in the preparation, review or issuance of a credit rating, action or report must use methodologies established by the designated rating organization. Each ratings employee must apply a given methodology in a consistent manner, as determined by the designated rating organization.
- 2.4 A credit rating must be assigned by the designated rating organization and not by an employee or agent of the designated rating organization.
- 2.5 A credit rating must reflect all information known, and believed to be relevant, to the designated rating organization, consistent with its published methodology. The designated rating organization will ensure that its ratings employees and agents have appropriate knowledge and experience for the duties assigned.
- 2.6 The designated rating organization, its ratings employees and its agents must take all reasonable steps to avoid issuing a credit rating, action or report that is false or misleading as to the general creditworthiness of a rated entity or rated securities.
- 2.7 The designated rating organization will ensure that it has and devotes sufficient resources to carry out high-quality credit assessments of all rated entities and rated securities. When deciding whether to rate or continue rating an entity or securities, the organization will assess whether it is able to devote sufficient personnel with sufficient skill sets to make a credible rating assessment, and whether its personnel are likely to

have access to sufficient information needed in order make such an assessment. A designated rating organization will adopt all necessary measures so that the information it uses in assigning a rating is of sufficient quality to support a credible rating and is obtained from a source that a reasonable person would consider to be reliable.

- 2.8 The designated rating organization will appoint a senior manager, or establish a committee made up of one or more senior managers, with appropriate experience to review the feasibility of providing a credit rating for a structure that is significantly different from the structures the designated rating organization currently rates.
- 2.9 The designated rating organization will assess whether the methodologies and models used for determining credit ratings of a structured finance product are appropriate when the risk characteristics of the assets underlying the structured finance product change significantly. If the quality of the available information is not satisfactory or if the complexity of a new type of structure, instrument or security should reasonably raise concerns about whether the designated rating organization can provide a credible rating, the designated rating organization will not issue or maintain a credit rating.
- 2.10 The designated rating organization will ensure continuity and regularity, and avoid conflicts of interest, in the rating process.

## **B. Monitoring and updating**

- 2.11 The designated rating organization will establish a committee to be responsible for implementing a rigorous and formal process for reviewing, on at least an annual basis, and making changes to the methodologies, models and key ratings assumptions it uses. This review will include consideration of the appropriateness of the designated rating organization's methodologies, models and key ratings assumptions if they are used or intended to be applied to new types of structures, instruments or securities. This process will be conducted independently of the business lines that are responsible for credit rating activities. The committee will report to its board of directors or the board of directors of a DRO affiliate that is a parent of the designated rating organization.
- 2.12 If a methodology, model or key ratings assumption used in a credit rating activity is changed, the designated rating organization will do each of the following:
  - (a) promptly identify each credit rating likely to be affected if the credit rating were to be re-rated using the new methodology, model or key ratings assumption and, using the same means of communication the organization generally uses for the credit ratings, disclose the scope of credit ratings likely to be affected by the change in methodology, model or key ratings assumption;
  - (b) promptly place each credit rating identified under subsection (a) under surveillance;
  - (c) within six months of the change, review each credit rating identified under subsection (a) with respect to its accuracy;

(d) re-rate a credit rating if, following the review required in subsection (c), the change, alone or combined with all other changes, affects the accuracy of the credit rating.

2.13 The designated rating organization will ensure that adequate personnel and financial resources are allocated to monitoring and updating its credit ratings. Except for ratings that clearly indicate they do not entail ongoing monitoring, once a rating is published the designated rating organization will monitor the rated entity's creditworthiness on an ongoing basis and, at least annually, update the rating. In addition, the designated rating organization must initiate a review of the accuracy of a rating upon becoming aware of any information that might reasonably be expected to result in a rating action (including termination of a rating), consistent with the applicable rating methodology and must promptly update the rating, as appropriate, based on the results of such review.

Subsequent monitoring will incorporate all cumulative experience obtained.

2.14 If the designated rating organization uses separate analytical teams for determining initial ratings and for subsequent monitoring, the organization will ensure each team has the requisite level of expertise and resources to perform their respective functions competently and in a timely manner.

2.15 If the designated rating organization discloses a credit rating to the public and subsequently discontinues the rating, the designated rating organization will disclose that the rating has been discontinued using the same means of communication as was used for the disclosure of the rating. If the designated rating organization discloses a rating only to its subscribers, if it discontinues the rating, the designated rating organization will disclose to each subscriber of that rating that the rating has been discontinued. In both cases, a subsequent publication by the designated rating organization of the discontinued rating will indicate the date the rating was last updated and disclose that the rating is no longer being updated and the reasons for the decision to discontinue the rating.

### **C. Integrity of the rating process**

2.16 The designated rating organization, its ratings employees and agents will comply with all applicable laws and regulations governing its activities.

2.17 The designated rating organization, its ratings employees and agents must deal fairly, honestly and in good faith with rated entities, investors, other market participants, and the public.

2.18 The designated rating organization will hold its ratings employees and agents to a high standard of integrity, and the designated rating organization will not employ an individual which a reasonable person would consider to be lacking in or have compromised integrity.

2.19 The designated rating organization and its ratings employees and agents will not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. The designated rating organization may develop prospective

assessments if the assessment is to be used in a structured finance product or similar transaction.

2.20 A person or company listed below must not make a recommendation to a rated entity about the corporate or legal structure, assets, liabilities, or activities of the rated entity:

- (a) a designated rating organization;
- (b) an affiliate or related entity of the designated rating organization;
- (c) the ratings employees of any of the above.

2.21 The designated rating organization will instruct its employees and agents that, upon becoming aware that the organization, another employee or an affiliate, or an employee of an affiliate of the designated rating organization, is or has engaged in conduct that is illegal, unethical or contrary to the designated rating organization's code of conduct, the employee or agent must report that information immediately to the compliance officer. Upon receiving the information, the compliance officer will take appropriate action, as determined by the laws and regulations of the jurisdiction and the rules and guidelines set forth by the designated rating organization. The designated rating organization will not take or allow retaliation against the employee or agent by employees, agents, the designated rating organization itself or its affiliates.

#### **D. Governance requirements**

2.22 The designated rating organization will not issue a credit rating unless a majority of its board of directors, or the board of directors of a DRO affiliate that is a parent of the designated rating organization, including its independent directors, have, what a reasonable person would consider, sufficient expertise in financial services to fully understand and properly oversee the business activities of the designated rating organization. If the designated rating organization issues a credit rating for a structured finance product, at least one independent member and one other member must have, what a reasonable person would consider to be, in-depth knowledge and experience at a senior level, regarding the structured finance product.

2.23 The designated rating organization will not issue a credit rating if a member of its board of directors, or the board of directors of a DRO affiliate that is a parent of the designated rating organization, participated in any deliberation involving a specific rating in which the member has a financial interest in the outcome of the rating.

2.24 The designated rating organization will not compensate an independent member of its board of directors, or the board of directors of a DRO affiliate that is a parent of the designated rating organization, in a manner or in an amount that a reasonable person could conclude that the compensation is linked to the business performance of the designated rating organization or its affiliates. The organization will only compensate directors in a manner that preserves the independence of the director.

2.25 The board of directors of a designated rating organization or a DRO affiliate that is a parent of the designated rating organization must monitor the following:

- (a) the development of the credit rating policy and of the methodologies used by the designated rating organization in its credit rating activities;
  - (b) the effectiveness of any internal quality control system of the designated rating organization in relation to credit rating activities;
  - (c) the effectiveness of measures and procedures instituted to ensure that any conflicts of interest are identified and either eliminated or managed and disclosed, as appropriate;
  - (d) the compliance and governance processes, including the performance of the committee identified in section 2.11.
- 2.26 The designated rating organization will design reasonable administrative and accounting procedures, internal control mechanisms, procedures for risk assessment, and control and safeguard arrangements for information processing systems. The designated rating organization will implement and maintain decision-making procedures and organizational structures that clearly, and in a documented manner, specify reporting lines and allocate functions and responsibilities.
- 2.27 The designated rating organization will monitor and evaluate the adequacy and effectiveness of its administrative and accounting procedures, internal control mechanisms, procedures for risk assessment, and control and safeguard arrangements for information processing systems, established in accordance with securities legislation and the designated rating organization's code of conduct, and take any measures necessary to address any deficiencies.
- 2.28 The designated rating organization will not outsource activities if doing so impairs materially the effectiveness of the designated rating organization's internal controls or the ability of the securities regulatory authority to conduct compliance reviews of the designated rating organization's compliance with securities legislation or its code of conduct. The designated rating organization will not outsource the functions or duties of the designated rating organization's compliance officer.

### **3. INDEPENDENCE AND CONFLICTS OF INTEREST**

#### **A. General**

- 3.1 The designated rating organization will not refrain from taking a rating action based in whole or in part on the potential effect (economic or otherwise) of the action on the designated rating organization, a rated entity, an investor, or other market participant.
- 3.2 The designated rating organization and its employees will use care and professional judgment to remain independent and maintain the appearance of independence and objectivity.
- 3.3 The determination of a credit rating will be influenced only by factors relevant to the credit assessment.

- 3.4 The designated rating organization will not allow its decision to assign a credit rating to a rated entity or rated securities to be affected by the existence of, or potential for, a business relationship between the designated rating organization or its affiliates and any other person or company including, for greater certainty, the rated entity, its affiliates or related entities.
- 3.5 The designated rating organization and its affiliates will keep separate, operationally and legally, their credit rating business and their rating employees from any ancillary services (including the provision of consultancy or advisory services) that may present conflicts of interest with their credit rating activities and will ensure that the provision of such services does not present conflicts of interest with their credit rating activities. The designated rating organization will define and publicly disclose what it considers, and does not consider, to be an ancillary service and identify those that are ancillary services. The designated rating organization will disclose in each ratings report any ancillary services provided to a rated entity, its affiliates or related entities.
- 3.6 The designated rating organization will not rate a person or company that is an affiliate or associate of the organization or a ratings employee. The designated rating organization must not assign a credit rating to a person or company if a ratings employee is an officer or director of the person or company, its affiliates or related entities.

## **B. Procedures and policies**

- 3.7 The designated rating organization will identify and eliminate or manage and publicly disclose any actual or potential conflicts of interest that may influence the opinions and analyses of ratings employees.
- 3.8 The designated rating organization will disclose the actual or potential conflicts of interest it identifies under section 3.7 in a complete, timely, clear, concise, specific and prominent manner.
- 3.9 The designated rating organization will disclose the general nature of its compensation arrangements with rated entities.
- (1) If the designated rating organization or an affiliate receives from a rated entity, an affiliate or a related entity compensation unrelated to its ratings service, such as compensation for ancillary services (as referred to in section 3.5), the designated rating organization will disclose the percentage that non-rating fees represent out of the total amount of fees received by the designated rating organization or its affiliate, as the case may be, from the rated entity, the affiliate or the related entity.
- (2) If the designated rating organization or its affiliates receives directly or indirectly 10 percent or more of its annual revenue from a particular rated entity or subscriber, including revenue received from an affiliate or related entity of the rated entity or subscriber, the organization will disclose that fact and identify the particular rated entity or subscriber.

- 3.10 A designated rating organization and its DRO employees and their associates must not trade a security, derivative or exchange contract if the organization's employee's or associate's interests in the trade conflict with their interests relating to a credit rating.
- 3.11 If a designated rating organization is subject to the oversight of a rated entity, or an affiliate or related entity of the rated entity, the designated rating organization will use different DRO employees to conduct the rating actions in respect of that entity than those involved in the oversight.

### **C. Employee independence**

- 3.12 Reporting lines for a ratings employee or DRO employee and their compensation arrangements will be structured to eliminate or manage actual and potential conflicts of interest.
- (1) The designated rating organization will not compensate or evaluate a ratings employee on the basis of the amount of revenue that the designated rating organization or its affiliates derives from rated entities that the ratings employee rates or with which the ratings employee regularly interacts.
  - (2) The designated rating organization will conduct reviews of compensation policies and practices for its DRO employees within reasonable regular time periods to ensure that these policies and practices do not compromise the objectivity of the designated rating organization's rating process.
- 3.13 The designated rating organization will take reasonable steps to ensure that its ratings employees, and any agent who has responsibility for developing or approving procedures or methodologies used for determining credit ratings, do not initiate, or participate in, discussions or negotiations regarding fees or payments with any rated entity or its affiliates or related entities.
- 3.14 The designated rating organization will not permit a ratings employee to participate in or otherwise influence the determination of a credit rating if the ratings employee
- (a) owns directly or indirectly securities, derivatives or exchange contracts of the rated entity, other than holdings through an investment fund;
  - (b) owns directly or indirectly securities, derivatives or exchange contracts of a rated entity or its related entities, the ownership of which causes or may reasonably be perceived as causing a conflict of interest;
  - (c) has had a recent employment, business or other relationship with the rated entity, its affiliates or related entities that causes or may reasonably be perceived as causing a conflict of interest; or
  - (d) has an associate who currently works for the rated entity, its affiliates or related entities.
- 3.15 The designated rating organization will not permit a ratings employee or an associate of such ratings employee to buy or sell or engage in any transaction involving a security, a

derivative or an exchange contract based on a security issued, guaranteed, or otherwise supported by any person or company within such ratings employee's area of primary analytical responsibility, other than holdings through an investment fund.

- 3.16 The designated rating organization will not permit a ratings employee or an associate of such ratings employee to accept gifts, including entertainment, from anyone with whom the designated rating organization does business, other than items provided in the normal course of business if the aggregate value of all gifts received is nominal.
- 3.17 If a DRO employee of a designated rating organization becomes involved in any personal relationship that creates any actual or potential conflict of interest, the DRO employee must disclose the relationship to the designated rating organization's compliance officer. The designated rating organization will not issue a credit rating if a DRO employee has an actual or potential conflict of interest with a rated entity. If the credit rating has been issued, the designated rating organization will publicly disclose in a timely manner that the credit rating may be affected.
- 3.18 The designated rating organization will review the past work of any ratings employee that leaves the organization and joins a rated entity (or an affiliate or related entity of the rated entity) if
- (a) the ratings employee has, within the last year, been involved in rating the rated entity, or
  - (b) the rated entity is a financial firm with which the ratings employee had, within the last year, significant dealings as part of his or her duties at the designated rating organization.

#### **4. RESPONSIBILITIES TO THE INVESTING PUBLIC AND ISSUERS**

##### **A. Transparency and timeliness of ratings disclosure**

- 4.1 The designated rating organization will distribute in a timely manner its ratings decisions regarding the entities and securities it rates.
- 4.2 The designated rating organization will publicly disclose its policies for distributing ratings, ratings reports and updates.
- 4.3 Except for a rating it discloses only to the rated entity, a designated rating organization will disclose to the public, on a non-selective basis and free of charge, any ratings decision regarding rated entities that are reporting issuers or the securities of such issuers, as well as any subsequent decisions to discontinue such a rating, if the rating decision is based in whole or in part on material non-public information.
- 4.4 In each of its ratings reports, a designated rating organization will disclose the following:
- (a) when the rating was first released and when it was last updated;
  - (b) the principal methodology or methodology version that was used in determining the rating and where a description of that methodology can be found. If the



rating is based on more than one methodology, or if a review of only the principal methodology might cause investors to overlook other important aspects of the rating, the designated rating organization must explain this fact in the ratings report, and include a discussion of how the different methodologies and other important aspects factored into the rating decision;

- (c) the meaning of each rating category and the definition of default or recovery, and the time horizon the designated rating organization used when making a rating decision;
- (d) any attributes and limitations of the credit rating. If the rating involves a type of financial product presenting limited historical data (such as an innovative financial vehicle), the designated rating organization will disclose, in a prominent place, the limitations of the rating;
- (e) all material sources, including the rated entity, its affiliates and related entities, that were used to prepare the credit rating and whether the credit rating has been disclosed to the rated entity or its related entities and amended following that disclosure before being issued.

4.5 In each of its ratings reports in respect of a structured finance product, a designated rating organization will disclose the following:

- (a) all information about loss and cash-flow analysis it has performed or is relying upon and an indication of any expected change in the credit rating. The designated rating organization will also disclose the degree to which it analyzes how sensitive a rating of a structured finance product is to changes in the designated rating organization's underlying rating assumptions;
- (b) the level of assessment the designated rating organization has performed concerning the due diligence processes carried out at the level of underlying financial instruments or other assets of structured finance products. The designated rating organization will also disclose whether it has undertaken any assessment of such due diligence processes or whether it has relied on a third-party assessment and how the outcome of such assessment impacts the credit rating.

4.6 If, to a reasonable person, the information required to be included in a ratings report under sections 4.4 and 4.5 would be disproportionate to the length of the ratings report, the designated rating organization will include a prominent reference to where such information can be easily accessed.

4.7 A designated rating organization will disclose on an ongoing basis information about all structured finance products submitted to it for its initial review or for a preliminary rating, including whether the issuer requested the designated rating organization to provide a final rating.

4.8 The designated rating organization will publicly disclose the methodologies, models and key rating assumptions (such as mathematical or correlation assumptions) it uses in its credit rating activities and any material modifications to such methodologies, models and key rating assumptions. This disclosure will include sufficient information about the

designated rating organization's 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) so that outside parties can understand how a rating was arrived at by the designated rating organization.

- 4.9 The designated rating organization will differentiate ratings of structured finance products from traditional corporate bond ratings through a different rating symbology. The designated rating organization will also disclose how this differentiation functions. The designated rating organization will clearly define a given rating symbol and apply it in a consistent manner for all types of securities to which that symbol is assigned.
- 4.10 The designated rating organization will assist investors in developing a greater understanding of what a credit rating is, and the limits to which credit ratings can be put to use in relation to a particular type of financial product that the designated rating organization rates. The designated rating organization will clearly indicate the attributes and limitations of each credit rating.
- 4.11 When issuing or revising a rating, the designated rating organization will provide in its press releases and public reports an explanation of the key elements underlying the rating opinion.
- 4.12 Before issuing or revising a rating, the designated rating organization will inform the issuer of the critical information and principal considerations upon which a rating will be based and afford the issuer an opportunity to clarify any likely factual misperceptions or other matters that the designated rating organization would wish to be made aware of in order to produce an accurate rating. The designated rating organization will duly evaluate the response.
- 4.13 Every year, the designated rating organization will publicly disclose data about the historical default rates of its rating categories and whether the default rates of these categories have changed over time. If the nature of the rating or other circumstances make a historical default rate inappropriate, statistically invalid, or otherwise likely to mislead the users of the rating, the designated rating organization will explain this. This information will include verifiable, quantifiable historical information about the performance of its rating opinions, organized and structured, and, where possible, standardized in such a way so as to assist investors in drawing performance comparisons between different designated rating organizations.
- 4.14 For each rating, the designated rating organization will disclose whether the rated entity and its related entities participated in the rating process and whether the designated rating organization had access to the accounts and other relevant internal documents of the rated entity or its related entities. Each rating not initiated at the request of the rated entity will be identified as such. The designated rating organization will also disclose its policies and procedures regarding unsolicited ratings.
- 4.15 The designated rating organization will fully and publicly disclose, in a timely fashion, any material modification to its methodologies, models, key ratings assumptions and significant systems, resources or procedures. Where a reasonable person would consider feasible and appropriate, disclosure of such material modifications will be made before they go into effect. The designated rating organization will carefully consider the

various uses of credit ratings before modifying its methodologies, models, key ratings assumptions and significant systems, resources or procedures.

**B. The treatment of confidential information**

- 4.16 The designated rating organization and its DRO employees will take all reasonable measures to protect the confidential nature of information shared with them by rated entities under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially. Unless otherwise permitted by the confidentiality agreement or required by applicable laws, regulations or court orders, the designated rating organization and its DRO employees will not disclose confidential information.
- 4.17 The designated rating organization and its DRO employees will not use confidential information for any purpose except for their rating activities or in accordance with applicable legislation or a confidentiality agreement with the rated entity to which the information relates.
- 4.18 The designated rating organization and its DRO employees will take all reasonable measures to protect all property and records relating to credit rating activities and belonging to or in possession of the designated rating organization from fraud, theft or misuse.
- 4.19 A designated rating organization will ensure that its DRO employees do not engage in transactions in securities, derivatives or exchange contracts when they possess confidential information concerning the issuer of such security or to which the derivative or the exchange contract relates.
- 4.20 A designated rating organization will cause its DRO employees to familiarize themselves with the internal securities trading policies maintained by the designated rating organization and certify their compliance with such policies within reasonable regular time periods.
- 4.21 The designated rating organization and its DRO employees will not selectively disclose any non-public information about ratings or possible future rating actions of the designated rating organization, except to the issuer or its designated agents.
- 4.22 The designated rating organization and its DRO employees will not share confidential information entrusted to the designated rating organization with employees of any affiliate that is not a designated rating organization or a DRO affiliate. The designated rating organization and its DRO employees will not share confidential information within the designated rating organization, except as necessary in connection with the designated rating organization's credit rating functions.
- 4.23 A designated rating organization will ensure that its DRO employees do not use or share confidential information for the purpose of buying or selling or engaging in any transaction in any security, derivative or exchange contract based on a security issued, guaranteed, or otherwise supported by any person or company, or for any other purpose except the conduct of the designated rating organization's business.