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## Plenary 2

Regulating Credit Rating Agencies

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# Credit Rating Agencies

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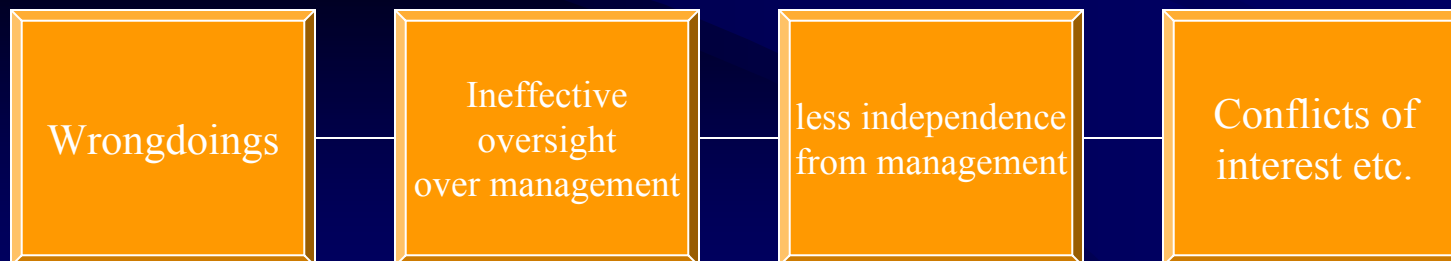
Financial Services Agency, Japan

# I. Financial Reporting Supply Chain

## 1. Structure of Chain



## 2. Problems (Pointed out)





## II. Issues relating to CRAs (1)

### 1. IOSCO Statement of Principles regarding the activities of CRAs (September 25, 2003)

#### ① 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.

#### ② 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.

#### ③ Transparency and Timeliness of Ratings Disclosure

- CRAs should make disclosure and transparency an objective in their ratings activities.

#### ④ 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 mutual understanding that the information is shared confidentially.



## II. Issues relating to CRAs (2)

### **Eligibility Criteria of an external credit assessment institution (ECAI) proposed by Basel II (April 29, 2003)**

- ① Objectivity
- ② Independence
- ③ International access / Transparency
- ④ Disclosure
- ⑤ Resources
- ⑥ Credibility

### **U.S. SEC Concept Release (June 4, 2003)**

- ① Alternatives to the NRSRO (Nationally Recognized Statistical Rating Organizations) Designation
- ② Recognition Criteria
- ③ Examination and Oversight of NRSROs
- ④ Conflicts of Interest
- ⑤ Alleged Anticompetitive, Abusive, and Unfair Practices
- ⑥ Information Flow



## II. Issues relating to CRAs (3)

### 4. Important Issues

**Transparency**

**Conflicts of Interest**

**Competition**



## III. CRAs System in Japan (1)

### 1. Designated Rating Agencies System in Japan

○ The Commissioner of the FSA designates certain CRAs as Designated Rating Agencies (“DRA”).

The following matters are to be considered for designation :

- Rating records
- Personal structure
- Organization
- Rating methods
- Capital structure
- Neutrality from issuers
- Others



### III. CRAs System in Japan (2)

- Ratings assigned by DRAs are used in regulations.
  - regulatory capital requirements (banks, securities companies, insurance companies)
  - defining investment grade securities for mutual funds and purchasing of stocks by the Banks' Shareholding Purchase Corporation
  - determining whether issuers can use the reference system of the securities registration system or the self registration system for public offerings of corporate bonds
  
- DRAs system is not regulation or supervision over CRAs.





### III. CRAs System in Japan (3)

#### 2. Current DSAs in Japan

- Rating and Investment Information, Inc. (R&I)
- Japan Credit Rating Agency, Ltd. (JCR)
- Moody's Investments Securities, Inc. (Moody's)
- Standard and Poor's Credit Market Securities (S&P)
- Fitch Ratings Limited (Fitch)