

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

IOSCO/MR11/2012

Madrid, 25 May 2012

IOSCO Consults on Certain Internal Controls and Procedures of the Credit Rating Agencies

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has published a consultation report, [*Credit Rating Agencies: Internal Controls Designed to Ensure the Integrity of the Credit Rating Process and Procedures to Manage Conflicts of Interest*](#). This Consultation Report describes certain internal controls and procedures that credit rating agencies (CRAs) use to promote the integrity of the credit rating process and address conflicts of interest, with a view to promoting a better understanding of these practices. The views of stakeholders and CRAs on these questions will assist the IOSCO with further analysis of the internal controls and procedures used by CRAs.

This Consultation Report is based on an IOSCO review of CRAs that focused on the internal controls established by CRAs to enhance the integrity of the credit rating process and on the procedures to manage conflicts of interest. The review was motivated by the role of CRAs in the 2008 financial crisis, which raised concerns about the quality of credit ratings and credit rating methodologies, the timeliness of adjustments to credit ratings, and, more generally, the integrity of the credit rating process. The 2008 financial crisis also raised concerns about how conflicts of interest are being managed by CRAs.

The internal controls and procedures described by the Consultation Report are divided into six categories.

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

Internal Controls:

- Quality of the rating process
- Structural support to ensure the quality of the rating process
- Monitoring and Updating
- Integrity of the Rating Process

Procedures:

- Managing Firm-Level Conflicts
- Managing Employee-level Conflicts

Despite concerns about their performance during the crisis, CRAs continue to play an important role in most modern capital markets. Issuers and corporate borrowers rely on the opinions of CRAs to raise capital. Lenders and investors use credit ratings in assessing the likely risks they face when lending money to, or investing in, securities of a particular entity. Institutional investors and fiduciary investors, likewise, use credit ratings to help them allocate investments in a diversified risk portfolio. Finally, laws and regulations use credit ratings to distinguish creditworthiness.

This report seeks to describe the operational practices of the CRAs that are designed to give effect to the relevant provisions of the IOSCO [Code of Conduct Fundamentals for Credit Rating agencies](#), which was published in December 2004 and revised in May 2008.

The closing period for responses to this consultation is Monday 9 July 2012.

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

NOTES FOR EDITORS

1. IOSCO is the leading international policy forum for securities regulators is recognised as the global standard setter for securities regulation. The organization's membership regulates more than 95% of the world's securities markets in 115 jurisdictions and its membership continues to expand.
2. Other IOSCO Reports on Credit Rating Agencies:
 - [*Report on the Activities of Credit Rating Agencies*](#), TC (September 2003);
 - [*IOSCO Statement of Principles Regarding the Activities of Credit Rating Agencies*](#), TC (September 2003);
 - [*Code of Conduct Fundamentals for Credit Rating Agencies*](#), TC (December 2004);
 - [*Review Of Implementation Of The Iosco Fundamentals Of A Code Of Conduct For Credit Rating Agencies*](#), TC (February 2007);
 - [*The Role of Credit Rating Agencies in Structured Finance Markets*](#), TC (May 2008);
 - [*The Code of Conduct Fundamentals for Credit Rating Agencies*](#), TC (May 2008);
 - [*A Review of Implementation Of The Iosco Code Of Conduct Fundamentals For Credit Rating Agencies*](#), TC (March 2009);
 - [*Regulatory Implementation of the Statement of Principles Regarding the Activities of Credit Rating Agencies*](#), TC (February 2011).
3. The [Technical Committee](#), a specialised working group established by IOSCO's Executive Committee, is made up of 18 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. At IOSCO's Annual Meeting in May 2012, a new IOSCO Board was constituted to absorb the functions of the TC, the Executive Committee and the Emerging Market Committee Advisory Board.
4. IOSCO aims through its permanent structures:
 - to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of regulation, oversight and enforcement in order to protect investors, maintain fair, efficient and transparent markets, and seek to address systemic risks;
 - to enhance investor protection and promote investor confidence in the integrity of securities markets, through strengthened information exchange and cooperation in enforcement against misconduct and in supervision of markets and market intermediaries; and

MEDIA RELEASE



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

- to exchange information at both global and regional levels on their respective experiences in order to assist the development of markets, strengthen market infrastructure and implement appropriate regulation.

MEDIA ENQUIRIES

Carlta Vitzthum

Outside office hours

Email:

Website:

Follow IOSCO on Twitter [here](#).

+ 34 91 787 0419

+ 34 697 449 639

Carlta@iosco.org

www.iosco.org