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

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IOSCO Publishes Two Reports Advancing its Work on Credit Rating Agencies

The International Organization of Securities Commissions (IOSCO) published today two reports on Credit Rating Agencies: the final report on *Credit Rating Agencies: Internal Controls Designed to Ensure the Integrity of the Credit Rating Process and Procedures to Manage Conflicts of Interest* and a consultation report on *Supervisory Colleges for Credit Rating Agencies*.

Both reports form part of IOSCO´s effort to improve the integrity of credit rating agencies (CRAs), as part of the global effort to enhance investor protection and the fairness, efficiency and transparency of securities markets. In a communiqué last month, the G20 Finance Ministers and Central Bank Governors encouraged further work by IOSCO "to enhance transparency of and competition among credit rating agencies."

Despite concerns about their performance during the 2008 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.

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Internal Controls and Conflicts of Interest

The final report provides an overview of the internal controls and conflicts of interest procedures adopted by a diverse array of credit CRAs. The findings from the report will help inform IOSCO's current review of the *IOSCO Code of Conduct Fundamentals for CRAs* (the Code), which is aimed at ensuring the Code remains relevant as the international standard for CRA self-governance. The Code was last revised after the 2008 financial crisis raised concerns about the quality of credit ratings and credit rating methodologies, the timeliness of adjustments to credit ratings, the integrity of the credit rating process, and how conflicts of interest are managed by CRAs.

An objective of the report is to increase public understanding of the internal workings of CRAs, and to enable CRAs to compare their internal controls and procedures with those of their peers. By shedding light on the processes and controls some CRAs utilize to ensure the integrity of the credit rating process and manage conflicts of interest, this report, in conjunction with disclosures that individual CRAs make about their controls and procedures, may help users of ratings draw their own conclusions about an individual CRA's controls and procedures, and thereby help the users make informed decisions with respect to their reliance on credit ratings.

The final report issued today summarizes the information received in response to a questionnaire and a *consultation paper* on internal controls and conflict of interest producers published in May 2012. The final report concludes that CRAs tend to adopt different policies and procedures to ensure the quality and integrity of the rating process, and to manage conflicts of interest, because they vary in size. However, despite these differences, all surveyed CRAs have adopted some form of policies and procedures to provide internal controls and safeguard against conflicts of interest.

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Establishing and Operating Supervisory Colleges

The consultation report on *Supervisory Colleges for Credit Rating Agencies* recommends establishing supervisory colleges for internationally active credit rating agencies (CRAs) and provides preliminary guidelines on how to establish and operate them.

The dispersion of internationally active CRA affiliates worldwide poses a challenge to supervisors, as they may only have perspective on the CRA activities in their jurisdiction. The creation of a CRA colleges could ultimately enhance the effectiveness of supervisors' risk assessment and oversight of these internationally active CRAs by facilitating information exchange and, if appropriate, cooperation.

A number of international bodies and standard setters, including IOSCO, have identified high-level principles relevant to the establishment of supervisory colleges. The consultation report draws from that work and seeks to tailor existing principles to the CRA business model.

The report makes preliminary recommendations on the subjects of a supervisory college, as well as its membership, chairperson, meetings, functions, and confidentiality safeguards and use of information.

The closing date for responses to the consultation report is Friday 15 February 2013.

NOTES FOR EDITORS

1. IOSCO, the leading international policy forum for securities regulators, is recognized 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 it continues to expand.

2. The Board is IOSCO's governing and standard-setting body, and is made up of 32 securities regulators. Mr. Masamichi Kono, Vice Commissioner for International Affairs at the Financial Services Agency of Japan (JFSA), is the Chairman of the IOSCO Board. The members of the IOSCO Board are

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the securities regulatory authorities of Argentina, Australia, Belgium, Brazil, Chile, China, France, Germany, Hong Kong, India, Italy, Japan, Korea, Malaysia, Mexico, Morocco, the Netherlands, Nigeria, Ontario, Pakistan, Portugal, Quebec, Romania, Singapore, South Africa, Spain, Switzerland, Trinidad and Tobago, Turkey, United Kingdom and the United States.

3. IOSCO aims through its permanent structures:

- to cooperate in developing, implementing and promoting adherence to internationally recognized 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

- 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.

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