



23 December 2004

MEDIA RELEASE

IOSCO RELEASES CODE OF CONDUCT FUNDAMENTALS FOR CREDIT RATING AGENCIES

Today the International Organization of Securities Commission (IOSCO) is publishing its [Code of Conduct Fundamentals for Credit Rating Agencies \(CRAs\)](#). The IOSCO CRA Code Fundamentals follows an extensive consultation process involving rating agencies, issuers, investors, academics and financial institutions. It represents a global, converged view of specific mechanisms CRAs can use to protect their analytical independence, eliminate or manage conflicts of interest, and help ensure the confidentiality of certain types of information shared with them by issuers. IOSCO expects the Code Fundamentals will receive the full support of CRAs and market participants around the world and will strengthen investor and market confidence in the rating process.

The Chairman of the IOSCO Technical Committee, Mr. Andrew Sheng, said that “The essential purpose of the Code Fundamentals is to promote investor protection by safeguarding the integrity of the rating process. IOSCO expects all CRAs to give full effect to the Code Fundamentals. The reason we devoted so much effort to this policy area is because we recognize the importance of reliable and accurate credit ratings in helping investors assess the credit risks they face when making investment decisions”.

Rather than acting as a code of conduct that CRAs are expected to sign onto, the IOSCO Code Fundamentals are a set of provisions that IOSCO expects all rating agencies will incorporate and give full effect to in their codes of conduct.

Mr. Roel C. Campos, a Commissioner with the US Securities and Exchange Commission as well as Chairman of the IOSCO task force that developed the Code of Conduct Fundamentals said: “We believe this approach is more flexible and more effectively enforced than would be the case if IOSCO had drafted a universal code for all CRAs to sign onto”. Mr. Campos noted that a degree of flexibility is warranted because CRAs vary considerably in their size, business models, rating methodologies and the legal and market circumstances in which they operate.

Central to the Code of Conduct Fundamentals is a disclosure mechanism that IOSCO believes will promote compliance with the spirit and intent of each of its provisions. The Code of Conduct Fundamentals obliges CRAs not only to incorporate its provisions into their own codes of conduct, but also to explain how each provision is addressed.

If a particular provision of the Code of Conduct is not incorporated into the CRA's own code of conduct, the CRA is expected to disclose this fact, explain why it has not incorporated the relevant provision, and how the objectives of that provision are otherwise addressed. Market participants will then be able to judge for themselves whether each CRA has implemented the Code of Conduct Fundamentals satisfactorily and react accordingly.

Mr. Sheng believes that there will be sufficient market pressure on CRAs to fully comply. "Failure to comply would undoubtedly have an adverse impact on individual CRAs as the industry and investors become aware of instances of non-compliance. We believe that in order to gain advantage in the market-place most CRAs will work to ensure their compliance with the IOSCO Code".

The release of the Code Fundamentals follows an extensive public consultation process that took place after a draft of the documents was published in October 2004. IOSCO received approximately 40 submissions from a wide range of market participants including ratings agencies, financial institutions and individual investors from around the world. This input proved to be invaluable in making modifications to the Code. The Task Force issued a statement outlining their deliberations in early December 2004:

<http://www.iosco.org/news/pdf/IOSCONEWS78.pdf>

In developing the Code Fundamentals, IOSCO also sought input from the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors since maintaining the integrity of the credit rating process is equally important to banking and insurance as well as to securities regulation.

Prior to developing the Code Fundamentals in September 2003 IOSCO published Principles Regarding the Activities of Credit Rating Agencies, along with a report briefly describing what CRAs do and regulatory issues that arise regarding their activities. These Principles outlined high-level objectives that regulators, CRAs and other market participants should seek to achieve in order to maintain the quality and integrity of the rating process. Development of the Code Fundamentals arose after some regulators and CRAs suggested it would be valuable if IOSCO were to offer more detailed guidance on how CRAs could implement the Principles in practice. The resulting Code Fundamentals include 52 concrete measures designed to implement the IOSCO CRA Principles effectively and thoroughly, regardless of the size or business model of the CRA or the legal and market circumstances in which it operates.

IOSCO has indicated that it may revisit the Code Fundamentals if subsequent developments indicate that modifications are appropriate.

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