

**Annex B**  
**Proposed National Instrument 25-101**  
***Designated Rating Organizations***

**PART 1— DEFINITIONS AND INTERPRETATION**

**1. Definitions —** In this Instrument,

**“board of directors”** means, for 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 10;

**“code of conduct”** means the code of conduct referred to in Part 3 of this Instrument;

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

**“DRO employee”** means an individual employed by a designated rating organization, and includes any other person or company who provides services 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, 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;

**“securitized 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** — 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.
- 3. **Affiliate** — In this Instrument, a person or company is an affiliate of a designated rating organization if any of the following apply:

- (1) one of them is the subsidiary of the other;
- (2) each of them is controlled by the same person or company.
- (3) For the purposes of subsection (2), 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 only, 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.

5. **Related Entity** — In this Instrument, a related entity to an issuer of a securitized product includes an originator, arranger, underwriter, servicer or sponsor of the securitized product and any entity performing similar functions.

## **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 and 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.

## **PART 3 — CODE OF CONDUCT**

### **7. 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 listed in Appendix A.

### **8. 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.

### **9. 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 4 — COMPLIANCE OFFICER**

### **10. Compliance Officer —**

- (1) A designated rating organization must have 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 report to the board of directors of the designated rating organization 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.
- (3) 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.
- (4) 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 and must be determined in a manner that preserves the independence of the compliance officer's judgment.

## **PART 5 — BOOKS AND RECORDS**

### **11. 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;
  - (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 6 — FILING REQUIREMENTS**

### **12. 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) A NRSRO satisfies the requirements in subsections (1), and (2) if it files its annual certification of its Form NRSRO and each amendment to its Form NRSRO within 10 business days of the date of filing thereof with the SEC.

## **PART 7 — EXEMPTIONS AND EFFECTIVE DATE**

### **13. 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.
- (3) Except in Ontario, 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.

### **14. Effective Date —** This Instrument comes into force on ●, 2011.

**APPENDIX A – TO NATIONAL INSTRUMENT 25-101 *DESIGNATED RATING ORGANIZATIONS* – 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**

2.1 A designated rating organization must adopt, implement and enforce written procedures 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 use rating methodologies that are rigorous, systematic, continuous and subject to validation based on historical experience, including back-testing.

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 any individual ratings employee employed by the designated rating organization. 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 must ensure that its ratings employees have appropriate knowledge and experience for the duties assigned.

2.5 A designated rating organization and its ratings employees must take 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.

2.6 A designated rating organization must 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, it must assess whether it is able to devote sufficient personnel with sufficient skill sets to make a credible rating assessment, and whether its personnel likely will have access to

sufficient information needed in order make such an assessment. A designated rating organization must adopt all necessary measures so that the information it uses in assigning a rating is of sufficient quality to support a credible rating.

2.7 A designated rating organization must establish a review function made up of one or more senior managers with appropriate experience to review the feasibility of providing a credit rating for a type of structure that is significantly different from the structures the designated rating organization currently rates.

2.8 A designated rating organization must assess whether existing methodologies and models for determining credit ratings of securitized products are appropriate when the risk characteristics of the assets underlying a securitized product change significantly. If the quality of the available information is not satisfactory or if the complexity of a new type of instrument or security raises concerns about whether the designated rating organization can provide a credible rating, the designated rating organization must not issue or maintain a credit rating.

2.9 A designated rating organization must ensure continuity and regularity, and avoid bias, in the rating process.

## **B. Monitoring and Updating**

2.10 A designated rating organization must establish a committee 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 must 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 instruments or securities. This process must be conducted independently of the business lines that are responsible for credit rating activities. The responsible committee must report to the board of directors of the designated rating organization.

2.11 When methodologies, models or key ratings assumptions used in credit rating activities are changed, a designated rating organization must do each of the following:

- (a) promptly, using the same means of communication as was used for the distribution of the affected credit ratings, disclose the likely scope of credit ratings expected to be affected by the change in methodologies, models or key ratings assumptions;
- (b) promptly place the affected credit ratings under observation;
- (c) within six months of the change, review the affected credit ratings;



- (d) re-rate all credit ratings that have been based on those methodologies, models or key rating assumptions if, following the review described in (c) above, the overall combined effect of the changes affects those credit ratings.

2.12 A designated rating organization must ensure that adequate personnel and financial resources are allocated to monitoring and updating its ratings. Except for ratings that clearly indicate they do not entail ongoing surveillance, once a rating is published the designated rating organization must 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 status 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 must incorporate all cumulative experience obtained.

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

2.14 If a designated rating organization makes its ratings available to the public and discontinues any rating, the designated rating organization must disclose that fact using the same means of communication as was used for the distribution of the rating. If a designated rating organization's ratings are provided only to its subscribers, the designated rating organization must announce to its subscribers if it discontinues any rating the subscriber subscribes for. In both cases, continuing publications by the designated rating organization of the discontinued rating must indicate the date the rating was last updated and disclose the fact that the rating is no longer being updated and the reasons for the decision to discontinue the rating.

### **C. Integrity of the Rating Process**

2.15 A designated rating organization and its ratings employees must comply with all applicable laws and regulations governing its activities.

2.16 A designated rating organization and its ratings employees must deal fairly and honestly with rated entities, investors, other market participants, and the public.

2.17 A designated rating organization's ratings employees must be held to high standards of integrity, and a designated rating organization must not employ individuals with demonstrably compromised integrity.

2.18 A designated rating organization and its ratings employees must not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. Notwithstanding the foregoing, a designated rating organization is not precluded from developing prospective assessments used in securitized product transactions and similar transactions.

2.19 The following persons and companies must not make recommendations 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 associate of the designated rating organization;
- (c) the ratings employees of any of the above.

2.20 Upon becoming aware that the designated rating organization, its DRO employees or 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, a DRO employee of a designated rating organization must report such information immediately to the compliance officer. If the compliance officer receives such a report from a DRO employee, the compliance officer is obligated to 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. A designated rating organization must prohibit retaliation by other DRO employees or by the designated rating organization itself or its affiliates against any DRO employees who, in good faith, make such reports.

#### **D. Governance Requirements**

2.21 A designated rating organization must have a board of directors. At least one-half, but not fewer than two, of the members of the board of directors must be independent.

A member of the board of directors of the designated rating organization will not be considered independent if the director, other than in his or her capacity as a member of the board of directors or a committee thereof,

- (a) accepts any consulting, advisory or other compensatory fee from the designated rating organization;
- (b) is a DRO employee or associate of the designated rating organization or any of its affiliates;
- (c) has a relationship with the designated rating organization that could, in the view of the designated rating organization's board of directors, be

reasonably expected to interfere with the exercise of a director's independent judgment.

2.22 A member of the board of directors of the designated rating organization must be disqualified from any deliberation involving a specific rating in which such member has a financial interest in the outcome of the rating.

2.23 The compensation of the independent members of the designated rating organization's board of directors must not be linked to the business performance of the designated rating organization, and must be arranged so as to preserve the independence of their judgment. The term of office of the independent directors must be for a pre-established fixed period, not to exceed five years and must not be renewable.

2.24 In addition to its other duties, the board of directors of a designated rating organization must specifically 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 the 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 2.10.

2.25 A designated rating organization must design sound administrative and accounting procedures, internal control mechanisms, procedures for risk assessment, and control and safeguard arrangements for information processing systems. A designated rating organization must also implement and maintain decision-making procedures and organizational structures that clearly, and in a documented manner, specify reporting lines and allocate functions and responsibilities.

2.26 A designated rating organization must monitor and evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with securities legislation and the designated rating organization's code of conduct, and take any measures necessary to address any deficiencies.

2.27 A designated rating organization must not outsource functions if doing so impairs materially the quality 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. Notwithstanding the foregoing, a designated rating organization must not outsource the functions of the designated rating organization's compliance officer as required by securities legislation.

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

#### **A. General**

3.1 A designated rating organization must not forbear or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on the designated rating organization, a rated entity, an investor, or other market participant.

3.2 A designated rating organization and its ratings employees must use care and professional judgment to maintain both the substance and appearance of independence and objectivity.

3.3 The determination of a credit rating must be influenced only by factors relevant to the credit assessment.

3.4 The credit rating that a designated rating organization assigns to a rated entity or rated securities must not be affected by the existence of, or potential for, a business relationship between (i) the designated rating organization and its affiliates, and (ii) the rated entity, its affiliates or related entities or any other party, or the non-existence of such a relationship.

3.5 A designated rating organization must keep separate, operationally and legally, its credit rating business and its rating employees from any ancillary businesses (including the provision of consultancy or advisory services) of the designated rating organization and must ensure that the provision of such services does not present conflicts of interest with its credit rating activities. A designated rating organization must also define and publicly disclose what it considers, and does not consider, to be an ancillary business. A designated rating organization must disclose in each ratings report any ancillary services provided to a rated entity, its affiliates or related entities.

3.6 A designated rating organization must not rate a person or company that is an affiliate or associate of the DRO or a ratings employee. A designated rating organization must not rate an entity if a ratings employee is an officer or director of the rated entity, its affiliates or related entities.

#### **B. Procedures and Policies**

3.7 A designated rating organization shall identify and either eliminate or manage and disclose, clearly and prominently, any actual or potential conflicts of interest that may influence the opinions and analyses of ratings employees.

3.8 A designated rating organization must disclose the actual or potential conflicts of interest it identifies pursuant to section 3.7 in a complete, timely, clear, concise, specific and prominent manner.

3.9 A designated rating organization must disclose the general nature of its compensation arrangements with rated entities.

- (a) If a designated rating organization receives from a rated entity, its affiliates or related entities compensation unrelated to its ratings service, such as compensation for ancillary services (as referred to in section 3.5), a designated rating organization must disclose the percentage such non-rating fees represent out of the total amount of fees received by the designated rating organization from such rated entity, its affiliates and related entities.
- (b) If a designated rating organization receives directly or indirectly 10 percent or more of its annual revenue from a particular rated entity or subscriber, whether or not received from any affiliate or related entity of the rated entity or subscriber, disclose that and identify the particular rated entity or subscriber.
- (c) If a designated rating organization provides a credit rating of a securitized product, the designated rating organization must encourage the rated entity to publicly disclose all information regarding the securitized product that would reasonably be expected to be material to an investor or other credit rating organization in conducting their own independent analyses. A designated rating organization must disclose in its ratings reports in respect of a securitized product whether the rated entity has informed it that it is publicly disclosing all relevant information about the product being rated or if the information remains non-public.

3.10 A designated rating organization and its DRO employees and their associates must not engage in any securities or derivatives trading that presents conflicts of interest with the designated rating organization's rating activities.

3.11 If a designated rating organization is subject to oversight functions performed by a rated entity, its affiliates or related entities, the designated rating organization must use different DRO employees to conduct rating actions in respect of that entity than those involved in the oversight issues.

### **C. Employee Independence**

3.12 Reporting lines for a designated rating organization's ratings DRO employees and their compensation arrangements must be structured to eliminate or effectively manage actual and potential conflicts of interest.

- (a) A ratings employee must not be compensated or evaluated on the basis of the amount of revenue that the designated rating organization derives from rated entities that the ratings employee rates or with which the ratings employee regularly interacts.
- (b) A designated rating organization must conduct formal and periodic reviews of compensation policies and practices for a designated rating organization's DRO employees to ensure that these policies and practices do not compromise the objectivity of the designated rating organization's rating process.

3.13 A designated rating organization's ratings employees, and any person within the designated rating organization who has responsibility for developing or approving procedures or methodologies used for determining credit ratings, must not initiate, or participate in, discussions or negotiations regarding fees or payments with any rated entity or its affiliates or related entities.

3.14 A ratings employee must not participate in or otherwise influence the determination of a credit rating if any of the following apply:

- (a) the employee owns directly or indirectly securities or derivatives of the rated entity, other than holdings through an investment fund where exposure to the rated entity does not exceed 10% of the investment fund's portfolio;
- (b) the employee owns directly or indirectly securities or derivatives of a related entity to a rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest;
- (c) the employee has had a recent employment, business or other relationship with the rated entity, its affiliates or related entities that may cause or may be perceived as causing a conflict of interest;
- (d) the employee has an associate who currently works for the rated entity, its affiliates or related entities.

3.15 A designated rating organization's ratings employees and their associates must not buy or sell or engage in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity within such ratings employee's area of primary analytical responsibility, other than holdings through an investment fund where exposure to the rated entity does not exceed 10% of the investment fund's portfolio.

3.16 A designated rating organization's ratings employees and their associates, affiliates and related entities must not accept gifts, including entertainment, from anyone with

whom the designated rating organization does business other than items provided in the context of normal business activities such as meetings that have an aggregate value of no more than nominal value.

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, such DRO employee must disclose such relationship to the designated rating organization's compliance officer.

3.18 A designated rating organization must review the past work of ratings employees that leave the employ of the designated rating organization and join a rated entity, or an affiliate or related entity of the rated entity the ratings employee has been involved in rating, or a financial firm with which the ratings employee had 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 A designated rating organization must distribute in a timely manner its ratings decisions regarding the entities and securities it rates.

4.2 A designated rating organization must publicly disclose its policies for distributing ratings, ratings reports and updates.

4.3 Except for "private ratings" provided only to the rated entity, a designated rating organization must 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 must 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. Where the rating is based on more than one methodology, or where 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. If such information would be

disproportionate to the length of the ratings report, the designated rating organization must include a prominent reference to where such information can be directly and easily accessed.

- (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. If such information would be disproportionate to the length of the ratings report, the designated rating organization must include a prominent reference to where such information can be directly and easily accessed.
- (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 must make clear, in a prominent place, the limitations of the rating.
- (e) All significant 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 securitized product, a designated rating organization must 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. A designated rating organization must also disclose the degree to which it analyzes how sensitive a rating of a securitized 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 securitized products. The designated rating organization must 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 A designated rating organization must disclose on an ongoing basis information about all securitized 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.

4.7 A designated rating organization must 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 must 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.

4.8 A designated rating organization must differentiate ratings of securitized products from traditional corporate bond ratings through a different rating symbology. A designated rating organization must also disclose how this differentiation functions. A designated rating organization must clearly define a given rating symbol and apply it in a consistent manner for all types of securities to which that symbol is assigned.

4.9 A designated rating organization must 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 vis-à-vis a particular type of financial product that the designated rating organization rates. A designated rating organization must clearly indicate the attributes and limitations of each credit rating.

4.10 When issuing or revising a rating, the designated rating organization must explain in its press releases and reports the key elements underlying the rating opinion.

4.11 Prior to issuing or revising a rating, a designated rating organization must 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. A designated rating organization must duly evaluate the response.

4.12 Every six months, a designated rating organization must 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 must explain this. This information must include verifiable, quantifiable historical information about the performance of its rating opinions, organized and structured, and, where possible, standardized in such a way to assist investors in drawing performance comparisons between different designated rating organizations.

4.13 For each rating, the designated rating organization must 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 must be identified as such. A designated rating organization must also disclose its policies and procedures regarding unsolicited ratings.

4.14 A designated rating organization must fully and publicly disclose any material modification to its methodologies, models, key ratings assumptions and significant systems, resources or procedures. Disclosure of such material modifications must be made prior to their going into effect. A designated rating organization must 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**

4.15 A designated rating organization and its DRO employees must 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 must not disclose confidential information in press releases, through research conferences, to future employers, or in conversations with investors, other rated entities, other persons or otherwise.

4.16 A designated rating organization and its DRO employees must use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the rated entities.

4.17 A designated rating organization and its DRO employees must 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.

4.18 DRO employees of a designated rating organization must not engage in transactions in securities or derivatives when they possess confidential information concerning the issuer of such security or to which the derivative relates.

4.19 DRO employees of a designated rating organization must familiarize themselves with the internal securities trading policies maintained by the designated rating organization and periodically certify their compliance with such policies.

4.20 A designated rating organization and its DRO employees must 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.

4.21 A designated rating organization and its DRO employees must not share confidential information entrusted to the designated rating organization with employees of any affiliate that is not a designated rating organization. A designated rating organization and its DRO employees must not share confidential information within the designated rating organization, except as necessary in connection with the designated rating organization's credit rating functions.

4.22 DRO employees of a designated rating organization must not use or share confidential information for the purpose of buying or selling or engaging in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity, or for any other purpose except the conduct of the designated rating organization's business.