

NOTICE ... OF 2011

FINANCIAL SERVICES BOARD

CREDIT RATING SERVICES ACT, 2011

CREDIT RATING AGENCY RULES

I, Dube Phineas Tshidi, Registrar of Credit Ratings Agencies , hereby determine under section 25(1) of the Credit Rating Services Act, 2011 (Act No. of 2011), the credit rating agency rules as set out in the schedule.

DP TSHIDI

REGISTRAR OF CREDIT RATING AGENCIES

SCHEDULE

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1. Definitions

In these rules “**the Act**” means the Credit Rating Services Act 2011 (Act No. of 2011) and any word or expression to which a meaning has been assigned in the Act bears the meaning so assigned to it and, unless the context otherwise indicates -;

“**advertisement**” means any written, printed, electronic or oral communication, including a communication by means of a public radio service, television broadcast or any other media or computer accessed communication in the media, which communication is directed to the general public, or any section thereof, or to any client and which is intended to call attention to, or to market or promote the services offered by a credit rating agency, and which does not purport to provide detailed information about such services; and “**advertise**” has a corresponding meaning;

“**computer-accessed communication**” means any communication made by or on behalf of a credit rating agency that is published through the use of a computer or related electronic device, including, but not limited to, web sites, weblogs, search engines, electronic mail, banner advertisements, pop-up and pop-under advertisements, chat rooms, list servers, instant messaging, or other internet presences, and any attachments or links related thereto.

2. Organisational Requirements for Credit Rating Agencies

2.1 General

(1) A credit rating agency must ensure that:

- (a) credit rating services are rendered independently, including free from all political and economic influences or constraints; and
- (b) conflicts of interest are properly identified, managed and disclosed.

(2) A credit rating agency must be organised in a way that ensures that its business interests do not impair the independence or accuracy of the credit rating services.

(3) The board of directors of the credit rating agency must subscribe to the principles and practices of effective corporate governance as contemplated in the King Code on Corporate Governance Principles.

(4) The board of directors must have independent members who are not involved in credit rating services.

(5) The compensation of the independent members of the board of directors may not be linked to the business performance of the credit rating agency and must be arranged so as to ensure the independence of judgment.

(6) The majority of members of the board of directors, including its independent members, must have sufficient expertise in financial services. Provided that where the credit rating agency issues credit ratings of structured finance instruments, at least one independent member and one other member of the board must have in-depth knowledge and experience at a senior level of the markets in structured finance instruments.

(7) In addition to the overall responsibility of the board of directors, the independent members must have the specific task of monitoring:

- (a) the development of the credit rating policy and of the methodologies used by the credit rating agency in its credit rating services;
- (b) the effectiveness of the internal quality control system of the credit rating agency in relation to credit rating services;
- (c) the effectiveness of measures and procedures instituted to ensure that any conflicts of interest are identified, eliminated or managed and disclosed; and
- (d) the compliance and governance processes, including the efficiency of the review function.

(8) The opinions of the independent members of the board of directors issued on the matters referred to in sub-paragraph (a) to (d) must be presented to the board of directors periodically and must be made available to the registrar on the registrar's request.

2.2 Internal Controls

(1) A credit rating agency must establish, maintain, enforce and document policies and procedures to ensure compliance with its obligations under the Act and these Rules.

(2) A credit rating agency must design its internal control mechanisms to secure compliance with decisions and procedures at all levels of the credit rating agency.

(3) A credit rating agency must implement and maintain decision-making procedures and organisational structures which clearly and in a documented manner specify reporting lines and allocate functions and responsibilities.

(4) A credit rating agency must establish appropriate and effective organisational and administrative arrangements to prevent, identify, eliminate or manage and disclose any conflicts of interest.

(5) A credit rating agency must arrange for records to be kept of all significant threats to the independence of the credit rating activities, including those to the rules on rating analysts, as well as the safeguards applied to mitigate those threats.

(6) A credit rating agency must employ appropriate systems, resources and procedures to ensure continuity and regularity in the performance of its credit rating activities.

(7) A credit rating agency must establish a review function responsible for periodically reviewing its methodologies, models and key rating assumptions, such as mathematical or correlation assumptions, and any significant changes or modifications thereto as well as the appropriateness of those methodologies, models and key rating assumptions where they are used or intended to be used for the assessment of new financial instruments.

(8) The review function in sub-paragraph (7) must be independent of the business divisions which are responsible for credit rating services; and must report directly to the board of directors .

3. Independence of Credit Rating Agencies and the avoidance of conflicts of interest by Credit Rating Agencies

3.1 General

- (1) A credit rating agency must
- (a) identify;
 - (b) eliminate or manage; and
 - (c) disclose,

clearly and prominently, any actual or potential conflicts of interest that may influence the analysis and judgments of its rating analysts, employees, or any other natural person whose services are placed at the disposal or under the control of the credit rating agency and who are directly involved in the issuing of credit ratings and persons approving credit ratings.

(2) A credit rating agency may not issue a credit rating in any of the following circumstances, or must, in the case of an existing credit rating, immediately disclose where the credit rating is potentially affected by the following:

- (a) the credit rating agency or persons referred to in sub-paragraph (1), directly or indirectly own financial instruments of the rated entity or a related third party or have any other direct or indirect ownership interest in that entity or party, other than holdings in diversified collective investment schemes, including managed funds such as pension funds or life insurance;
- (b) the credit rating is issued with respect to the rated entity or a related third party directly or indirectly linked to the credit rating agency by control;
- (c) a person referred to in sub-paragraph (1) is a member of the administrative or supervisory board of the rated entity or a related third party; or
- (d) a rating analyst who participated in determining a credit rating, or a person who approved a credit rating, has had a relationship with the rated entity or a related third party which may cause a conflict of interest.

(3) A credit rating agency must immediately assess whether there are grounds for re-rating or withdrawing the existing credit rating referred to in sub-paragraph (2).

(4) A credit rating agency may not, without the prior written approval of the registrar, provide consultancy or advisory services to the rated entity or a related third party regarding the corporate or legal structure, assets, liabilities or activities of that rated entity or related third party.

(5) A credit rating agency must ensure that rating analysts or persons who approve ratings do not make proposals or recommendations, either formally or informally, regarding the design of structured finance instruments on which the credit rating agency is expected to issue a credit rating.

(6) A credit rating agency must design its reporting and communication channels so as to ensure the independence of the persons referred to in sub-paragraph (1) from the other activities of the credit rating agency carried out on a commercial basis.

(7) A credit rating agency must refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on the credit rating agency, an issuer, an investor, or other market participant.

(8) A credit rating agency and its analysts must use care and professional judgment to maintain both the substance and appearance of independence and objectivity.

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

(10) The credit rating that a credit rating agency assigns to an issuer or security should not be affected by the existence of or potential for a business relationship between the credit rating agency (or its affiliates) and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship.

(11) A credit rating agency must separate operationally its credit rating business from any other businesses of the credit rating agency, including consulting businesses that may present a conflict of interest. A credit rating agency must ensure that ancillary business operations which do not necessarily present conflicts of interest with the credit rating agency's rating business have procedures and mechanisms in place designed to minimize the likelihood that conflicts of interest will arise.

(12) A credit rating agency must adopt written internal procedures and mechanisms to

- (a) identify;
- (b) eliminate or manage; and
- (c) disclose,

as appropriate, any actual or potential conflicts of interest that may influence the opinions and analyses a credit rating agency make or the judgment and analyses of the individuals a credit rating agency employs who have an influence on ratings decisions. A credit rating agency's code of conduct must state that the credit rating agency will disclose such conflict avoidance and management measures.

(13) A credit rating agency's disclosures of actual and potential conflicts of interest must be complete, timely, clear, concise, specific and prominent.

(14) A credit rating agency must disclose the general nature of its compensation arrangements in respect of its credit rating services:-

- (a) Where a credit rating agency receives compensation unrelated to its ratings service from a rated entity , such as compensation for consulting services, a credit rating agency must disclose the proportion that such non-rating fees constitute against the fees the credit rating agency receives from the entity for ratings services.

- (b) A credit rating agency must disclose if it receives five percent or more of its annual revenue from a single issuer, originator, arranger, client or subscriber (including any affiliates of that issuer, originator, arranger, client or subscriber).
- (c) Credit rating agencies as an industry should encourage structured finance issuers and originators of structured finance products to publicly disclose all relevant information regarding these products so that investors and other credit rating agencies can conduct their own analyses independently of the credit rating agency contracted by the issuers and/or originators to provide a rating.
- (d) A credit rating agency must disclose in its rating announcements whether the issuer of a structured finance product has informed the credit rating agency that the issuer of a structured finance product is publicly disclosing all relevant information about the product being rated or if the information remains non-public.

(15) A credit rating agency any employees of a credit rating agency may not engage in any securities or derivatives trading which have a potential to present conflicts of interest with the credit rating agency's rating activities.

(16) In instances where rated entities, such as governments have, or are simultaneously pursuing, oversight functions related to the credit rating agency, the credit rating agency must use different employees to conduct its rating actions than those employees involved in its oversight issues.

3.2 Credit Rating Agency Analyst and Employee Independence

(1) A credit rating analyst or an employee of a credit rating agency, or the spouse, partner or child of an analyst or employee may not buy or sell or engage in any transaction in any financial instrument issued, guaranteed, or otherwise supported by any rated entity within his or her area of primary analytical responsibility other than holdings in diversified collective investment schemes, including managed funds such as pension funds or life insurance.

(2) A credit rating agency must structure its reporting lines for employees and their compensation arrangements so as to eliminate or effectively manage actual and potential conflicts of interest.

(3) A credit rating agency's code of conduct must state that an analyst employed by the credit rating agency may not be compensated or evaluated on the basis of the amount of

revenue that the credit rating agency derives from issuers that the analyst rates or with which the analyst regularly interacts.

(4) A credit rating agency must conduct formal and periodic reviews of its compensation policies and practices for credit rating agency analysts and other employees, who participate in or who might otherwise have an effect on the rating process, to ensure that these policies and practices do not compromise the objectivity of the credit rating agency's rating process.

(5) A credit rating agency may not have employees who are directly involved in the rating process and the employees may not initiate, or participate in, discussions regarding fees or payments with any entity they rate.

(6) An credit rating agency employee may not participate in, or otherwise influence, the determination of the credit rating agency's rating of any particular entity, security or financial instrument if the employee:

- (a) owns securities or derivatives of the rated entity, other than holdings in diversified collective investment schemes;
- (b) owns securities or derivatives of any entity related to a rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes;
- (c) has had a recent employment or other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest;
- (d) has an immediate relation, such as a spouse, partner, parent, child, or sibling, who currently works for the rated entity; or
- (e) has, or had, any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.

(7) A credit rating agency must have a gift or similar policy which prohibits its employees from soliciting money, gifts or favors from anyone with whom the credit rating agency does business and accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.

(8) A credit rating agency analyst who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest, including any personal relationship with an employee of a rated entity or agent of such entity within his or her area of analytic responsibility, must be required to disclose such relationship to the appropriate

manager or officer of the credit rating agency, as determined by the credit rating agency's compliance policies.

(9) A credit rating agency must establish policies and procedures for reviewing the past work of analysts that leave the employ of the credit rating agency and join an issuer the credit rating agency analyst has been involved in rating, or a financial firm with which the credit rating agency analyst has had significant dealings as part of his or her duties at the credit rating agency.

(10) A credit rating agency must ensure that credit rating analysts and employees of the credit rating agency:

- (a) take all reasonable measures to protect property and records in possession of the credit rating agency from fraud, theft or misuse, taking into account the nature, scale and complexity of its business and the nature and range of its credit rating activities;
- (b) do not disclose any information about credit ratings or possible future credit ratings of the credit rating agency, except to the rated entity or its related third party;
- (c) do not share confidential information entrusted to the credit rating agency with rating analysts and employees of any person directly or indirectly linked to it by control, as well as with any other natural person whose services are placed at the disposal or under the control of any person directly or indirectly linked to it by control, and who is directly involved in the credit rating activities; and
- (d) do not use or share confidential information for the purpose of trading financial instruments, or for any other purpose except the conduct of the credit rating activities.

- (11) (a) Upon becoming aware that another employee or entity under common control of the credit rating agency is or has engaged in conduct that is illegal, unethical or contrary to the credit rating agency's code of conduct, a credit rating agency employee must report such information immediately to the compliance officer or an officer of the credit rating agency, as appropriate, so proper action may be taken.

(b) A credit rating agency may not subject a credit rating analyst or an employee of the credit rating agency, who has made a report as contemplated in paragraph (1), to occupational detriment, including being subjected to any disciplinary action or otherwise being adversely affected in respect of his or her employment, profession or office.

(12) Where a rating analyst terminates his or her employment with a credit rating agency and joins a rated entity, which he or she has been involved in rating, or a financial firm, with which he or she has had dealings as part of his or her duties at the credit rating agency, the credit rating agency must review the relevant work of the rating analyst over two years preceding his or her departure.

(13) A credit rating analyst or employee of the credit rating agency may not take up a key management position with the rated entity or its related third party within six months of the credit rating.

(14) A credit rating agency must ensure that:-

(a) a credit rating analyst is not involved in credit rating activities related to the same rated entity or its related third parties for a period exceeding five years;

(b) a person approving a credit rating is not involved in credit rating services related to the same rated entity or its related third parties for a period exceeding seven years.

(15) A person referred to in paragraph (29) (a) or (b) may not be involved in credit rating activities related to the rated entity or related third parties referred to in those paragraphs within two years of the end of the periods set out in those paragraphs.

(16) A credit rating agency must establish, maintain, and enforce policies and procedures to ensure that the ratings issued by a credit rating analyst or employee of the credit rating agency are subject to an annual review to determine whether any conflicts of interest of the employee influenced the credit rating (a “look-back review”); and that the credit rating agency may take action to revise the rating if appropriate, in accordance with such policies and procedures.

4. Quality and Integrity of Credit Ratings

4.1 Quality of the Rating Process

(1) A credit rating agency must adopt, implement and enforce written procedures to ensure that an opinion that the credit rating agency publishes are based on a thorough analysis of all information known to the credit rating agency that is relevant to its analysis according to the credit rating agency's published rating methodology.

(2) In assessing an issuer's creditworthiness, an analyst involved in the preparation or review of any rating action must use methodologies established by the credit rating agency. An analyst must apply the methodologies in a consistent manner, as determined by the credit rating agency.

(3) Credit ratings must be assigned by the credit rating agency and not by any individual analyst employed by the credit rating agency.

(4) A credit rating agency must ensure that ratings reflect all information known, and believed to be relevant, to the credit rating agency, consistent with its published methodology.

(5) A credit rating agency must use employees who, individually or collectively (particularly where rating committees are used) have appropriate knowledge and experience in developing a rating opinion for the type of credit rating being applied.

(6) A credit rating agency must maintain the internal records which support its credit opinions for at least five years. The internal records must be made available on request to the registrar.

(7) A credit rating agency and an analyst employed by it must take steps to avoid issuing any credit analysis or report that contains misrepresentations or are otherwise misleading as to the general creditworthiness of an issuer or obligation.

(8) A credit rating agency must ensure that it has and devotes sufficient resources to carry out high-quality credit assessments of all obligations and issuers it rates.

(9) When deciding whether to rate or continue rating an obligation or issuer, a credit rating agency must assess whether it is able to devote sufficient personnel with sufficient skill sets to make a proper rating assessment, and whether its personnel will have access to sufficient information needed in order to make such an assessment.

(10) A credit rating agency must adopt reasonable measures so that the information it uses in assigning a rating is of sufficient quality to support a credible rating. If the rating involves a type of financial instrument presenting limited historical data (such as an innovative financial

vehicle), the credit rating agency must make clear, in a prominent place, the limitations of the rating.

(11) A credit rating agency 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 materially different from the structures the credit rating agency currently rates.

(12) A credit rating agency must establish and implement a rigorous and formal review function responsible for periodically reviewing the methodologies and models and significant changes to the methodologies and models it uses. Where feasible and appropriate for the size and scope of its credit rating services, this function must be independent of the business divisions that are principally responsible for rating various classes of issuers and obligations.

(13) A credit rating agency must assess whether existing methodologies and models for determining credit ratings of structured products are appropriate when the risk characteristics of the assets underlying a structured product change materially. In cases where the complexity or structure of a new type of structured product or the lack of robust data about the assets underlying the structured product raise serious questions as to whether the credit rating agency can determine a credible credit rating for the security, the credit rating agency must refrain from issuing a credit rating.

(14) A credit rating agency must structure its rating teams to promote continuity and avoid bias in the rating process.

(15) A credit rating agency must include an attestation with any credit rating it issues affirming that-

- (a) no part of the rating was influenced by any other business activities of the credit rating agency;
- (b) the rating was based solely on the merits of the entity, security or financial instruments being rated; and
- (c) such rating was an independent evaluation of the risks and merits of the entity, security or financial instrument.

4.2 Monitoring and Updating

(1) A credit rating agency 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.

(2) Once a rating is published the credit rating agency must monitor on an ongoing basis and update the rating by:

- (a) regularly reviewing the issuer's as well as the entity's creditworthiness;
- (b) initiating a review of the status of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action (including termination of a rating), and,
- (c) updating on a timely basis the rating, as appropriate, based on the results of such review.

(2) A credit rating agency must ensure that subsequent monitoring incorporates all cumulative experience obtained. The credit rating agency must apply changes in ratings criteria and assumptions where appropriate to both initial ratings and subsequent ratings.

(3) If a credit rating agency uses separate analytical teams for determining initial ratings and for subsequent monitoring of structured finance products, each team must have the requisite level of expertise and resources to perform their respective functions in a timely manner.

(4) Where a credit rating agency makes its ratings available to the public, the credit rating agency must publicly announce if it discontinues rating an issuer or obligation.

(5) Where a credit rating agency's ratings are provided only to its subscribers, the credit rating agency must announce to its subscribers if it discontinues rating an issuer or obligation.

(6) In the circumstances in either subparagraph (4) or (5), continuing publications or submission by the credit rating agency of the discontinued rating must indicate the date the rating was last updated and the fact that the rating is no longer being updated.

4.3 Integrity of the Rating Process

(1) A credit rating agency and its employees must comply with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.

(2) A credit rating agency and its employees must deal fairly and honestly with issuers, investors, other market participants, and the public.

(3) An analyst employed by a credit rating agency must be held to high standards of integrity, and a credit rating agency may not employ individuals with demonstrably compromised integrity.

(4) A credit rating agency and its employees may not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This does not preclude a credit rating agency from developing prospective assessments used in structured finance and similar transactions.

(5) A credit rating agency must prohibit its analysts from making proposals or recommendations regarding the design of structured finance products that a credit rating agency rates.

5. Presentation of Credit Ratings

(1) A credit rating agency must ensure that a credit rating states clearly and prominently the name and job title of the lead rating analyst in a given credit rating activity and the name and position of the person primarily responsible for approving the credit rating.

(2) A credit rating agency must ensure that at least:

(a) all substantially material sources, including the rated entity or issuer or, where appropriate, a related third party, which were used to prepare the credit rating are indicated together with an indication as to whether the credit rating has been disclosed to that rated entity or its related third party and amended following that disclosure before being issued;

(b) the principal methodology or version of methodology that was used in determining the rating is clearly indicated, with a reference to its comprehensive description; where the credit rating is based on more than one methodology, or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, the credit rating agency must explain this fact in the credit rating and indicate how the different methodologies or these other aspects are taken into account in the credit rating;

- (c) the meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained;
- (d) the date at which the credit rating was first released for distribution and when it was last updated is indicated clearly and prominently; and
- (e) information is given as to whether the credit rating concerns a newly issued financial instrument and whether the credit rating agency is rating the financial instrument for the first time.

(3) A credit rating agency must inform the rated entity at least 12 hours before publication of the credit rating and of the principal grounds on which the rating is based in order to give the entity an opportunity to draw attention of the credit rating agency to any factual errors.

- (4) (a) A credit rating agency must clearly and prominently state when disclosing credit ratings any attributes and limitations of the credit rating.
- (b) In particular, a credit rating agency must prominently state when disclosing any credit rating whether it considers satisfactory the quality of information available on the rated entity and to what extent it has verified information provided to it by the rated entity or its related third party.
- (c) If a credit rating involves a type of entity or financial instrument for which historical data is limited, the credit rating agency must make clear, in a prominent place, such limitations of the credit rating.

(5) In a case where the lack of reliable data or the complexity of the structure of a new type of financial instrument or the quality of information available is not satisfactory or raises serious questions as to whether a credit rating agency can provide a credible credit rating, the credit rating agency must refrain from issuing a credit rating or withdraw an existing rating.

(6) When announcing a credit rating, a credit rating agency must explain in its press releases or reports the key elements underlying the credit rating.

(7) Where the information required to be disclosed would be disproportionate in relation to the length of the report distributed, the credit rating agency may make clear and prominent reference in the report itself to the place where such disclosures can be directly and

easily accessed, including a direct web link to the disclosure on an appropriate website of the credit rating agency.

6. Additional obligations in relation to credit ratings of structured finance instruments

(1) A credit rating agency may employ a largely principle-based methodology for assigning and monitoring ratings on structured finance instruments.

(2) Where a credit rating agency rates a structured finance instrument, it must provide in the credit rating 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.

(3) A credit rating agency must conduct and publish all due diligence processes in respect of credit ratings of all structured finance instruments.

(4)(a) A credit rating agency must state what level of assessment it has performed concerning the due diligence processes carried out at the level of underlying financial instruments or other assets of structured finance instruments.

(b) The credit rating agency must disclose whether it has undertaken any assessment of such due diligence processes or whether it has relied on a third-party assessment, indicating how the outcome of such assessment impacts on the credit rating.

(5) Where a third-party assessment has been undertaken, a credit rating agency must, at the time it produces a credit rating, disclose any certifications from providers of third-party due diligence services to the public in a manner that allows the public to determine the adequacy and level of due diligence services provided by the third-party.

(6) Where a credit rating agency issues credit ratings of structured finance instruments, it must accompany the disclosure of methodologies, models and key rating assumptions with guidance which explains assumptions, parameters, limits and uncertainties surrounding the models and rating methodologies used in such credit ratings, including simulations of stress scenarios undertaken by the agencies when establishing the ratings. Such guidance must be clear and easily comprehensible.

(7) A credit rating agency must have regard to the following:

(a) The constantly changing and innovative nature of structured financings;

- (b) The differences in the maturity and sophistication of global and regional markets, as well as particular sectors and/or participants within those markets;
- (c) The differences and changes in regulatory and legal frameworks among countries and market sectors;
- (d) The differences and changes in market conventions and industry practices;
- (e) The cultural differences among markets that may influence behavior and performance;
- (f) The unique considerations at the asset, originator, and transaction levels; and
- (g) The key characteristics of structures or asset classes that may not have been securitized before..

(8) The analytical framework for structured finance securitisation credit ratings must comprise of, but are not limited to, the following minimum key areas of analysis:

- (a) Credit quality of the securitised assets;
- (b) Legal and regulatory risks;
- (c) Payment structure and cash flow mechanics;
- (d) Operational and administrative risks; and
- (e) Counterparty risk.

(9) Where the lack of reliable data or the complexity of the structure of a new type of financial instrument or the quality of information available is not satisfactory or raises serious questions as to whether a credit rating agency can provide a credible credit rating, the credit rating agency must refrain from issuing a credit rating or withdraw an existing credit rating.

(10) A credit rating agency must disclose, on an ongoing basis, information about all structured finance products submitted to it for its initial review or for preliminary rating. Such disclosure must be made whether or not issuers contract with the credit rating agency for a final rating.

7. Design of Methodologies, Models and Key Rating Assumptions

(1) A credit rating agency must adopt measures so that the information it uses in assigning a credit rating is of sufficient quality and from reliable sources.

(2) A credit rating agency must record all instances where in its credit rating process it departs from existing credit ratings prepared by another credit rating agency with respect to underlying assets or structured finance instruments providing a justification for the differing assessment.

(3) A credit rating agency must monitor credit ratings and review its credit ratings and methodologies on an ongoing basis and at least annually, in particular where material changes occur that could have an impact on a credit rating.

(4) When methodologies, models or key rating assumptions used in credit rating activities are changed, a credit rating agency must:

- (a) immediately, using the same means of communication as used for the distribution of the affected credit ratings, disclose the likely scope of credit ratings to be affected;
- (b) review the affected credit ratings as soon as possible and no later than six months after the change, in the meantime placing those ratings under observation; and
- (c) re-rate all credit ratings that have been based on those methodologies, models or key rating assumptions if, following the review, the overall combined effect of the changes affects those credit ratings.

9. Additional Disclosures

A credit rating agency must, every six months, disclose the following information on the ratings issued by the credit rating agency to the registrar:-

- (a) Number of ratings for the period reported;
- (b) Rating scale used;
- (c) Name of the issuer;
- (d) Class of rating;
- (e) Present rating afforded;
- (f) Information on whether a previous rating was assigned; and
- (g) Reason for change in rating.

10. Record-keeping

(1) A credit rating agency must in accordance with section 14 of the Act arrange for adequate records and, where appropriate, audit trails of its credit rating activities to be kept.

The records must include:

- (a) for each credit rating decision:-
 - (i) the identity of the rating analysts participating in the determination of the credit rating,
 - (ii) the identity of the persons who have approved the credit rating;
 - (iii) information as to whether the credit rating was solicited or unsolicited; and
 - (iv) the date on which the credit rating action was taken;
- (b) the account records relating to fees received from any rated entity or related third party or any user of ratings;
- (c) the account records for each subscriber to the credit ratings or related services;
- (d) the records documenting the established procedures and methodologies used by the credit rating agency to determine credit ratings;
- (e) the internal records and files, including non-public information and work papers, used to form the basis of any credit rating decision taken;
- (f) credit analysis reports, credit assessment reports and private credit rating reports and internal records, including non-public information and work papers, used to form the basis of the opinions expressed in such reports;
- (g) records of the procedures and measures implemented by the credit rating agency to comply with these Rules; and
- (h) copies of internal and external communications, including electronic communications, received and sent by the credit rating agency and its employees, that relate to credit rating activities.

(2) A credit rating agency must keep the records and audit trails at the registered address of the credit rating agency for at least five years and make the records available upon request to the registrar.

(3) Where the registration of a credit rating agency is withdrawn, the credit rating agency must keep the records for an additional term of at least three years.

(4) A credit rating agency must retain the agreement to provide credit rating services which sets out the respective rights and obligations of the credit rating agency and the rated entity or its related third parties for at least the duration of the relationship with that rated entity or its related third parties.

10. Advertising

- (1) A credit rating agency must ensure that its advertising material:-
- (a) provides accurate, complete and unambiguous information about the credit rating services and any ancillary services to be provided by the credit rating agency;
 - (b) discerns fact from opinion; and
 - (c) is not comparative in relation to another credit rating agency.
- (2) A credit rating agency must ensure that an advertisement published by it:-
- (a) does not contain any statement, promise or forecast which is fraudulent, untrue or misleading;
 - (b) must, if such advertisement contains performance data (including awards and rankings), include references to their source and date.

11. Guarantees and insurance cover

A credit rating agency must maintain appropriate guarantees or professional indemnity or fidelity insurance cover to mitigate the risks inherent in his or her business and to which regulated persons are exposed.

12. Inducements

(1) A credit rating agency or any person acting of its behalf must take reasonable steps to ensure that its employees do not offer, give, solicit or accept any incentive, remuneration, consideration, commission, fee or brokerage as an inducement if it is likely to conflict with any duty that the credit rating agency owes to its clients in respect of credit rating services provided to those clients or any duty that the recipient of the inducement owes to the clients of the credit rating agency.

(2) Without limiting the generality of sub-paragraph (1), any valuable consideration offered, given, solicited or accepted as an inducement by a credit rating agency or any person acting on its behalf, in terms of an agreement with a third party or a client which relates to the provision of credit rating services by the credit rating agency to one or more clients, and which does not directly relate to, and assist in the provision of, such services to such clients or does not otherwise directly benefit the clients of the recipient of such valuable consideration, shall constitute an inducement prohibited in terms of sub-paragraph (1).

(3) A credit rating agency that, in terms of an agreement with a third party, directly or indirectly accepts any valuable consideration as an inducement in respect of credit rating services rendered to a client, or for which the credit rating agency may become eligible, must disclose to the client in writing before the rendering of such service, the existence of the agreement, the nature, extent, value and frequency of receipt of such valuable consideration to the extent that such information is known prior to the rendering of the service, and the identity of the other person providing or offering the valuable consideration.

13. Credit rating agency's responsibilities to the investing public and issuers

13.1 Transparency and Timeliness of Ratings Disclosure

(1) A credit rating agency must distribute in a timely manner its ratings decisions.

(2) A credit rating agency must publicly disclose its policies for distributing ratings, reports and updates.

(3) A credit rating agency must indicate with each of its ratings when the rating was last updated.

(4) (a) A credit rating agency must indicate with each rating announcement the principal methodology or methodology version that was used in determining the rating and where a description of that methodology can be found.

(b) 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 credit rating agency must explain this fact in the ratings announcement, and set out how the different methodologies and other important aspects factored into the rating decision.

(5) Except for private ratings provided only to the issuer, a credit rating agency must disclose to the public, on a non-selective basis and free of charge, any rating regarding publicly issued securities, or public issuers themselves, as well as any subsequent decisions to discontinue such a rating, if the rating action is based in whole or in part on material non-public information.

(6) A credit rating agency must publish sufficient information about its procedures, methodologies and assumptions (including financial statement adjustments that deviate materially from those contained in the rated entity'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 credit rating agency. This information must include, but not be limited to, the meaning of each rating category and the definition of default or recovery, and the time horizon the credit rating agency used when making a rating decision.

(7) Where a credit rating agency rates a structured finance product, it must provide investors and subscribers (depending on the credit rating agency's business model) with sufficient information about its loss and cash-flow analysis so that an investor intending to invest in the product can understand the basis for the credit rating agency's rating.

(8) A credit rating agency must disclose the degree to which it analyses how sensitive a rating of a structured finance product is to changes in the credit rating agency's underlying rating assumptions.

(9) A credit rating agency must differentiate ratings of structured finance products from traditional corporate bond ratings, preferably through a different rating symbol, and disclose how this differentiation functions.

(10) A credit rating agency 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.

(11) A credit rating agency 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 credit rating agency rates.

(12) A credit rating agency must clearly indicate the attributes and limitations of each credit opinion, and the limits to which the credit rating agency verifies information provided to it by the issuer or originator of a rated security.

(13) When issuing or revising a rating, the credit rating agency must explain in its press releases and reports the key elements underlying the rating opinion.

(14) (a) Where feasible and appropriate, prior to issuing or revising a rating, the credit rating agency must inform rated entity 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 credit rating agency would wish to be made aware of in order to produce an accurate rating.

(b) A credit rating agency must duly evaluate the response from the rated entity.

(c) Where in particular circumstances the credit rating agency has not informed the issuer prior to issuing or revising a rating, the credit rating agency must inform the issuer as soon as practical thereafter and, generally, must explain the reason for the delay.

(15) When a credit rating agency discloses the data contemplated in section 13(2) of the Act, and 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 credit rating agency must explain this.

(16) The information contemplated in section 13(2) must include verifiable, quantifiable and 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 credit rating agencies.

(17) For each rating, the credit rating agency must disclose whether the issuer participated in the rating process.

(18) A credit rating agency must identify a rating not initiated at the request of the issuer.

(19) A credit rating agency must disclose its policies and procedures regarding unsolicited ratings.

(20) (a) Where feasible and appropriate, disclosure of material modifications of a credit rating agency's methodologies, practices, procedures and processes as contemplated in section 13(1)(a) of the Act must be made prior to their going into effect.

(b) A credit rating agency must carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.

13.2 Confidential Information

(1) In accordance with section 7(1)(f)(ii) of the Act, a credit rating agency must adopt procedures and mechanisms to protect the confidential nature of information shared with them by issuers under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially.

(2) Unless otherwise permitted by the confidentiality agreement and consistent with applicable laws or regulations, a credit rating agency or an employee of the agency may not disclose confidential information-

- (i) in press releases;
- (ii) through research conferences;
- (iii) to future employers;
- (iv) in conversations with investors, other issuers, or other persons: or
- (v) otherwise.

(3) A credit rating agency may use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.

(4) A credit rating agency must take all reasonable measures to protect all property and records belonging to or in possession of the credit rating agency from fraud, theft or misuse.

(5) A credit rating agency must prohibit its employees from engaging in transactions in securities when such employees have access to confidential information concerning the issuer of such security.

(6) In preservation of confidential information, a credit rating agency employee must familiarise him or herself with the internal securities trading policies maintained by his or her employer, and the credit rating agency must periodically ensure that its employees certify their compliance as required by its policies.

(7) A credit rating agency must ensure that its employees do not selectively disclose any non-public information about rating opinions or possible future rating actions of the credit rating agency, except to the issuer or its designated agents.

(8) A credit rating agency must ensure that its employees do not share confidential information entrusted to the credit rating agency with employees of any affiliated entities that are not credit rating agencies.

(9) A credit rating agency must prohibit its employees to share confidential information within the credit rating agency, except if required for the performance of their duties.

(10) A credit rating agency employee may not use or share confidential information for the purpose of trading securities, or for any other purpose except for the conduct of the credit rating agency's business.