



Association of Credit Rating Agencies in Asia

**CODE OF CONDUCT  
FUNDAMENTALS  
FOR  
DOMESTIC CREDIT  
RATING AGENCIES**

A 10TH ANNIVERSARY  
MILESTONE PUBLICATION  
OF THE ASSOCIATION  
OF CREDIT RATING  
AGENCIES IN ASIA

**April 2011**

15TH FLOOR PRYCE CENTER  
1179 CHINO ROCES AVENUE  
CORNER BAGTIKAN STREET  
MAKATI CITY, 1203 PHILIPPINES  
TEL/FAX NOS. (632) 890-4562

# Table of Contents

Message of the Chairman	2
Foreword	3
Note to Reader	4
<b>1. QUALITY AND INTEGRITY OF THE RATING PROCESS</b>	
A. Quality of the Rating Process	5
B. Monitoring and Updating	10
C. Integrity of the Rating Process	14
<b>2. DCRA'S INDEPENDENCE AND AVOIDANCE OF CONFLICTS OF INTEREST</b>	
A. General	18
B. DCRA Procedures and Policies	20
C. DCRA Analyst and Employee Independence	22
<b>3. DCRA RESPONSIBILITIES TO THE INVESTING PUBLIC AND ISSUERS</b>	
A. Transparency and Timeliness of Ratings Disclosure	25
B. The Treatment of Confidential Information	34
<b>4. DISCLOSURE OF THE CODE OF CONDUCT AND COMMUNICATION WITH MARKET PARTICIPANTS</b>	
About ACRAA	39
Directory of ACRAA Members	40
Acknowledgment	44

## Message of the Chairman

The year 2011 is the tenth anniversary of the Association of Credit Rating Agencies in Asia (ACRAA), and we are glad to mark the event with this anniversary milestone publication, the “ACRAA Code of Conduct Fundamentals for Domestic Credit Rating Agencies.” By this publication, ACRAA recommits itself to the highest standards of ethical conduct in the pursuit of the credit rating business.

Our ACRAA Best Practices Committee headed by Mr. Faheem Ahmad, President of JCR-VIS Credit Rating Co. Ltd., Pakistan, has done a commendable job in putting these implementing guidelines together and we recognize him and his Committee members with deep gratitude.

We also acknowledge with thanks the support of CIBI Foundation, Inc. in the printing of this publication.

ACRAA looks forward to continuing performing its role in promoting development of our regional and national financial markets.



**KAZUO IMAI**

*Chairman*

## Foreword

For some time now, credit rating agencies world-wide have recognized the need to become fully compliant with the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies, as this code is considered essential for a DCRA to establish its credentials. Keeping this in mind ACRAA's Best Practices Committee has prepared this ACRAA Code of Conduct Fundamentals for Domestic Credit Rating Agencies.

This code is based on the articles of the IOSCO code and builds on ADB's Handbook on International Best Practices in Credit Rating (December 2008), with a few modifications. Wherever deemed necessary, the articles have been further elaborated, so that this document can serve as a practical guide for ACRAA members, facilitating them in its proper implementation. All member DCRA's are expected to implement this code so that ACRAA can establish its credibility and commitment to best practices.

I would like to express my gratitude to the late Mr. Rajagopalan Ravimohan and his team at CRISIL Limited, who had prepared an excellent initial Checklist/Handbook on best practices, which has made the present Best Practices Committee members' job a lot easier in preparing this document. I am also thankful to the Best Practices Committee members, Ms. Milly Leong Soek Yee of Malaysian Rating Corporation Berhad (MARC) and Mr. Rajesh Mokashi of Credit Analysis and Research Limited (CARE). I am also grateful to Mr. Naresh Takkar and Ms. Vibha Batra of ICRA Limited and Mr. Safdar Kazi of JCR-VIS Credit Rating Co. Ltd. for their invaluable contributions to the preparation of this code.



**FAHEEM AHMAD**

*Chairman*

*Best Practices Committee 2010-11*

## **Note to Reader**

*The texts in bold type and which are numbered, are copied from the International Organization of Securities Commissions (IOSCO) Technical Committee's "Code of Conduct Fundamentals for Credit Rating Agencies" released in December 2004 and revised in May 2008.*

*The other texts in smaller type are the Implementing Guidelines suggested by ACRAA, with accompanying explanatory notes for their application.*

# 1. Quality and Integrity of the Rating Process

## A. Quality of the Rating Process

- 1.1 A Domestic Credit Rating Agency [DCRA] should adopt, implement and enforce written procedures to ensure that the opinions it disseminates are based on a thorough analysis of all information known to the DCRA that is relevant to its analysis according to the DCRA's published rating methodology.
- 1.2 A DCRA should use rating methodologies that are rigorous, systematic and, where possible, result in ratings that can be subjected to some form of objective validation based on historical experience.
- 1.3 In assessing an issuer's creditworthiness, analysts involved in the preparation or review of any rating action should use methodologies established by the DCRA. Analysts should apply a given methodology in a consistent manner, as determined by the DCRA.

**A DCRA should have well-defined and updated credit rating criteria, which are uniformly applicable across companies.** Well-defined credit rating criteria enable analysts to analyze and interpret information appropriately. Every DCRA should refine its criteria and benchmarks proactively, taking into account changes in the market environment. Robust criteria assist in accurate assessment of credit risk for an entity. Ratings are subjective credit opinions based on various qualitative and quantitative factors; the robustness of ratings can be preserved only through consistent application of updated rating criteria. Besides developing criteria for in-house use, it is highly desirable that DCRA's publicize a broad criteria framework. Criteria transparency enhances the acceptance of ratings among users. Consistent application of criteria is also essential for comparing ratings and will result in meaningful default and transition statistics.

**Rating disclaimers:** Ratings are forward-looking assessments and provide a broad sense of an issuer's expected performance. This makes them more prone to misunderstanding than any other financial indicator. Some market participants can take an assigned rating as an absolute indicator, and others may ignore rating transitions. A DCRA has a very important role to play with such investors, making them aware that ratings are not the final word on a company's track record or its future performance. A DCRA should therefore accompany its ratings with sufficient description of the meaning and limitations of ratings.

**Publishing Rating Criteria:** A DCRA should publish all key rating criteria and benchmarks to enhance the transparency of the rating process. While publication of rating methodologies is recommended as an essential best practice, a DCRA should aim to enhance the transparency of their rating criteria. Rating assessments should be forward-looking on the credit quality of the issue or issuer and should be based on methodologies that combine both quantitative and qualitative approaches, rather than merely derived from a few financial ratios. Published rating criteria ensure that implementation is uniform and rigorous for all assignments because any deviation can be subject to market scrutiny. The scope for deviation is narrowed significantly by rigorous adherence to published criteria. They also act as guiding principles for analysts, rating committee, issuers, and investors.

**1.4 Credit ratings should be assigned by the DCRA and not by any individual analyst employed by the DCRA; ratings should reflect all information known, and believed to be relevant, to the DCRA, consistent with its published methodology; and the DCRA should use people 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 being applied.**

**Formal rating committees should decide ratings.** The existence of the rating committee as the final decision-making body is one of the most important safeguards for the independence of rating decisions. It is therefore imperative that all rating decisions be made by a duly constituted committee(s). The rating committee must comprise members who have the professional competence to assess credits and have no interest in the entities being rated. The members should have extensive experience in relevant areas in the domestic financial markets; global exposure will also help. The rating committee may also include outside experts provided they agree to fully adhere to a DCRA's code of ethical conduct and sign a confidentiality agreement.

All DCRA's should have formal rating committees to determine accurate and consistent ratings. The names and personal credentials of the permanent rating committee members should be published on the DCRA's Web site. The practice of a rating committee taking a final decision on assignment of ratings ensures objectivity, since the decision results from the collective thinking of a group of experts analyzing the risks pertaining to the particular entity. Analysts should prepare a written credit analysis report for the deliberation of the rating committee. A credit rating should be valid for a period decided by the rating committee. It is recommended that proceedings of the rating committee be minuted and maintained for future reference.

Although voting rights in rating committee decisions should be limited only to members of the committee and the analytical team, discussions during the committee should be open to all DCRA analytical personnel to ensure knowledge and committee insights are widely disseminated within the organization and rating decisions are transparent. To keep the rating independent of any issuer influence, members with business development responsibilities should not have voting rights in the rating committee.

To avoid any bias from rating committee members, the rating decision should be based on voting by a minimum of three members. This practice enhances rating committee collegiality, integrity and credibility.

**The rating committee's decisions should be subject to a clearly described review or appeal process.** In the event that the issuer disagrees with the initial rating, and has additional information that it believes can make a material difference to its rating, it is highly desirable that the issuer have recourse to an appeal process. A DCRA should clearly articulate the process in public. Upon receiving valid information, the rating committee will discuss the merits of the case and may or may not decide to modify the rating. A clearly-articulated and well-defined appeal process is recommended for each DCRA because appeals may bring about new or fresh perspectives with bearing on the rating. This will ensure that rating committee decisions are robust, accurate, and fair. While an appeal process is critical for the initial rating, a DCRA should ensure that such an appeal process is not misused by the issuer to delay a rating action in the case of rating reviews, especially rating downgrades.

**1.5 A DCRA should maintain internal records to support its credit opinions for a reasonable period of time or in accordance with applicable law.**

**1.6 A DCRA and its analysts should take steps to avoid issuing any credit analyses or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of an issuer or obligation.**

**Maintenance of records:** A DCRA should maintain all records pertaining to a rating exercise for a reasonable period of time, or as warranted by regulations. Such records have to be maintained for all ratings, including unaccepted ones. Maintenance of records of the rating assignments and the related working papers will be visible proof that the DCRA exercised abundant caution and requisite due diligence.



**1.7 A DCRA should ensure that it has and devotes sufficient resources to carry out high-quality credit assessments of all obligations and issuers it rates. When deciding whether to rate or continue rating an obligation or issuer, it should assess whether it is able to devote sufficient personnel with sufficient skill sets to make a proper rating assessment, and whether its personnel likely will have access to sufficient information needed in order make such an assessment. A DCRA should 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 product presenting limited historical data (such as an innovative financial vehicle), the DCRA should make clear, in a prominent place, the limitations of the rating.**

**Availability of adequate resources is essential.** A DCRA must devote sufficient resources to ensure the high analytical quality of all its credit risk assessments. These resources include personnel with adequate skills, and facilities such as access to required information and tools and software to analyze information. Moreover, a DCRA is required to invest regularly in personnel training. Paucity of resources may impact the quality of ratings assigned, damaging DCRA credibility.

Further, a DCRA needs to allocate financial resources for business development functions, outreach activities, and surveillance processes. Also, during its formative years, DCRA revenues tend to depend on just a few companies. Losing business from one client can significantly impact a DCRA's financial position. Such dependency has the potential to influence a DCRA's analytical independence, impacting its ability to assign unbiased ratings. However, DCRA's with adequate capital can withstand such pressures.

**1.7-1 A DCRA should 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 DCRA currently rates.**

**1.7-2 A DCRA should 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 should be independent of the business lines that are principally responsible for rating various classes of issuers and obligations.**

**1.7-3 A DCRA should 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 DCRA can determine a credible credit rating for the security, DCRA should refrain from issuing a credit rating.**

**Process audit:** Each DCRA should set up rigorous audit checkpoints to ensure adopted best practices, policies, and procedures are carried out. Such checkpoints must be manned by independent professionals with extensive knowledge and experience in credit ratings. It is also recommended that such an audit group be headed by a senior professional who reports directly to the Board Audit Committee or to an equivalent position. The need for this process audit arises because even the best of intentions, in the form of rigorous policies and comprehensive guidelines for best practice adherence, will remain on paper only unless implementation is meticulous and continually tracked. The audit group should also provide feedback to operating groups such that any corrective action can be taken on a periodic basis.

**A DCRA should have separate functional groups, each having specific responsibilities in the rating process.** It is desirable that separate functional groups be formed within a DCRA to ensure that the execution and follow-through of the rating assignment is smooth and efficient. It is recommended the following groups be established:

**Business development group:** Responsible for obtaining mandates from prospective entities, this group will handle all business communication and finalize the commercial terms of the rating assignment. A DCRA's business development group should be separated from its analytical group.

**Analytical group:** This group handles all analytical responsibilities for a rating assignment and for assessing credit risk for the relevant entity. Ideally, it should not be involved in any commercial discussions with the entity. This group will be responsible for the rating

process from receipt of written consent for a rating until the time the rating is made public. It will also be responsible for surveillance and review of ratings.

**Rating administration:** The existence of a separate functional group for the administration of the rating process will ensure it is followed, and that time lines are strictly respected. This group will look after the progress of a rating assignment from the initiation stage until the dissemination of the final rating to the public. This group will also maintain a list of all outstanding ratings and proper documentation to support credit opinions, and will handle external dissemination of ratings and rating reports.

**Criteria group:** This group will be responsible for formulating, maintaining, and refining the criteria framework under which the various types of issuance will be rated. This group will ensure, before implementation that any new criteria proposed are thoroughly discussed from both an analytical and market impact perspective. These functional groups, where feasible and appropriate, would be collectively responsible for the successful implementation of the rating process. They will help a DCRA build up a substantial base of information on its ratings, present a transparent approach to the financial markets, and help the DCRA if it is subjected to regulatory inspection.

## **1.8 A DCRA should structure its rating teams to promote continuity and avoid bias in the rating process.**

**A DCRA should have a well-planned training program for all its employees.** The skills of a DCRA's employees play an important role in the analytical quality of its assessments: continuous upgrading of skills is therefore a must.

### **B. Monitoring and Updating**

**1.9 A DCRA should 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 DCRA should monitor on an ongoing basis and update the rating by:**

- a. regularly reviewing the issuer'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), consistent with the applicable rating methodology; and,**
- c. updating on a timely basis the rating, as appropriate, based on the results of such review.**

**Subsequent monitoring should incorporate all cumulative experience obtained. Changes in ratings criteria and assumptions should be applied where appropriate to both initial ratings and subsequent ratings**

**Every rating should be kept under surveillance until it is withdrawn.** A credit rating on an instrument must reflect credit quality throughout the period when the rating is outstanding. It is a DCRA's responsibility to ensure this objective is met. To this end, after the initial rating has been assigned, the issuer's performance and economic environment must be constantly monitored.

**Steps in the rating surveillance process include:**

- i. communicating with the entity at regular intervals to understand developments and trends in performance to help analysts compare company performance against their own and the company's expectations, as well as against peers;
- ii. checking the status of issues that may affect the entity's credit quality (such as an initial public offering), exploring the probability of such issues arising in the near future, and assessing the management's perspective on such issues;
- iii. discussing financial performance with the entity on the declaration of interim financial results; and
- iv. understanding strategic plans or new initiatives that could have rating implications.

Surveillance also enables analysts to stay abreast of current developments, to discuss potential problem areas, be apprised of any changes in the issuer's plans, and to distinguish between realistic and over-optimistic management expectations.

**A DCRA should conduct formal reviews involving meetings with issuers.** It is desirable that a DCRA adopt a formal policy of conducting continuous and periodic reviews. It is ideal to keep all rated credits under continuous surveillance until withdrawal of ratings. However, a DCRA can also choose to conduct periodic surveillance. Such a policy should ensure that every rated credit is tracked, at least annually, and that the rating on such a credit continues to reflect the inherent credit quality. For such a review to be effective, it should include meetings with the management. Such review meetings should focus on critical developments over the period since the last meeting and the outlook for the coming year.

In between such annual reviews, a DCRA may also assess an entity's interim financial performance. The broad outline of these reviews could involve:

- i. tracing the effects of various developments in the business
- ii. addressing any concerns on governance; and
- ii. analyzing the impact of any change in management policy or stance.

In addition, immediate rating reviews should be undertaken whenever any event or development takes place (such as an acquisition or merger) that may affect the credit quality of the rated entity or instrument. Such immediate reviews may be mostly event driven and be performed as the need arises.

Possible causes for such a review include:

- i. significant changes in top management;
- ii. significant corporate action such as merger, acquisition, equity offering, or buyback;
- iii. significant differences between actual and projected performance;
- iv. new developments in the industry; and
- v. changes in applicable criteria.

At times, the issuer may not provide sufficient information for surveillance. If so, it is recommended that wherever possible, surveillance should be done on a best-effort basis and all rating communications should prominently disclose this fact. But if a DCRA feels constrained in its rating view, even on a best-effort basis, it can suspend the rating until such time that the issuer furnishes information. This suspension should be made public.

The requirement of ensuring periodic surveillance until the rating withdrawal and the publication of surveillance reports signals to the market that the rating is current and accurate, and can be relied upon for investment decisions.

**1.9-1 If a DCRA uses separate analytical teams for determining initial ratings and for subsequent monitoring of structured finance products, each team should have the requisite level of expertise and resources to perform their respective functions in a timely manner.**

**1.10 Where a DCRA makes its ratings available to the public, the DCRA should publicly announce if it discontinues rating an issuer or obligation. Where a DCRA's ratings are provided only to its subscribers, the DCRA should announce to its subscribers if it discontinues rating an issuer or obligation. In both cases, continuing publications by the DCRA of the discontinued rating should indicate the date the rating was last updated and the fact that the rating is no longer being updated.**

**The basic policies, practices, and methodologies used for assignment of ratings shall be published and freely available in print and on the Web site.** The policies adopted by a DCRA for rating assignment, and strict adherence to them, are an indicator of DCRA transparency and independence. It is highly desirable that each DCRA make a well-defined rating policy and rating methodology freely available to entities being rated, investors, market intermediaries, regulators, and other interested parties. Such disclosure helps to develop, among investors and issuers, an understanding of the credit risk assessment framework and related policies and practices.

A DCRA's policy for assigning, revising, suspending, and withdrawing ratings should be clearly outlined and made public. The validity of the rating should be stated up front. Ideally, a DCRA should institute a policy of not withdrawing any rating until the instrument that is rated has been redeemed in full; this allows the agency to fulfill its role of communicating the credit quality of the rated instrument at all times to investors. While not withdrawing ratings until redemption of a rated instrument is a recommended best practice, the next best alternative is for a DCRA to choose to withdraw ratings even if the rated instruments are not fully redeemed, subject to its withdrawal policy which should be available in the public domain. The withdrawal policy should be consistent with the regulatory requirements. But while doing so, it should notify the market about the withdrawal, the reason for it, and the rating outstanding on the instrument as of the date prior to withdrawal. It can also choose to keep the rating on "notice of withdrawal" for some pre-specified period, and withdraw the rating once this period has expired. Such a practice will help a DCRA avoid a situation in which issuers seek to withdraw the rating when faced with a threat of downgrade. DCRA's are strongly urged to publish their withdrawal policies and ensure strict compliance with disclosed policies.

## C. Integrity of the Rating Process

### 1.11 A DCRA and its employees should comply with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.

**Relations with the Regulator and Other DCRA's:** A DCRA should comply with all rules and regulations promulgated by industry regulators. It is also expected to inform regulators about new developments on issues related to its oversight functions. A DCRA should encourage fair dealing and competition with other DCRA's and jointly promote credit rating discipline in the local capital market. This will greatly help the development of regional bond markets.

### 1.12 A DCRA and its employees should deal fairly and honestly with issuers, investors, other market participants, and the public.

**A DCRA and the entity it proposes to rate must sign a written contract, covering the DCRA's obligation to render credit rating services.** This contract will list all DCRA obligations included in the provision of credit opinion, the main service. A written contract enables the rated entity to better understand a DCRA's deliverables, and is in line with high standards of ethical conduct. A well-drafted contract will avoid any disparity between a DCRA and the rated entity regarding the responsibilities and obligations of each party, and will forge a formal legal relationship between the two. In the contract, the obligations of the rated entity for cooperation and provision of updated information to conduct periodic surveillance should be clearly spelled out and the rights of the rated entity over the use of ratings clearly communicated. Conditions for contract termination, including withdrawal of assigned ratings, should also be clearly spelled out.

This contract is also the underlying legal document for arbitration between a DCRA and the entity, should the need arise. This helps foster a professional relationship between the DCRA and the rated entity. It is recommended that each DCRA have a standardized version of such a document for each type of rating, and use it consistently.

**Rating definitions, policy for use, and rating criteria are to be explained to the rated entity before rating services are engaged. In emerging financial markets, the entity that is being rated may not be well-versed in the nuances of the rating process.** A DCRA should explain to them the scope and use of the ratings, as well as the broad credit assessment framework followed. This should be done before or at the time the DCRA is

engaged to enable the entity to make an informed decision about that engagement. This may be communicated using standard presentations, brochures, and other materials, and disclosed on the DCRA's Web site to minimize misinterpretation.

A DCRA should clearly communicate the rating definition and the rating scale. The DCRA should also make clear that the ratings do not constitute recommendations to buy, hold, or sell any security, and should inform the entity how to use the rating. Policies for use of ratings, conditions for withdrawal, and possible circumstances for rating actions should also be clearly communicated.

**1.13 A DCRA's analysts should be held to high standards of integrity, and a DCRA should not employ individuals with demonstrably compromised integrity.**

**Rating analysts should be competent to perform their tasks.** Analysts play very important roles in determining the credit rating, and their competence can impact ratings quality. It is important that analysts have the skills to perform their tasks and are well-versed in risk assessment methods. Additionally, a DCRA should not employ any analyst with a tainted reputation as it can impact credibility. It is preferable that a DCRA disclose the name of the analytical contact in its rating rationale.

**1.14 A DCRA and its employees should not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This does not preclude a DCRA from developing prospective assessments used in structured finance and similar transactions.**

**A DCRA cannot promise, assure, or guarantee a particular rating outcome, either implicitly or explicitly, while soliciting business.** Because a rating is based on an analytical decision by a rating committee and not the subjective view of an individual, no rating outcome should be promised or committed either implicitly or explicitly to the rated entity and/or the arranger while soliciting business. Promising a particular rating outcome falls outside the ethical standards expected from a DCRA; an assured rating outcome undermines the credibility of the entire credit rating process and erodes the authority of the rating committee.

No employee with business development responsibility or any other representative of the DCRA should be allowed to promise, assure, or guarantee, either implicitly or explicitly, a



particular rating outcome. Any employee who does should face disciplinary proceedings, including possible dismissal.

DCRAs are expected to provide objective and fair credit opinions for use by debt market investors. The assignment of a rating should therefore derive purely from independent and unbiased views based on the determinants of credit quality and not on any assurance or guarantee given beforehand.

**1.14-1 A DCRA should prohibit its analysts from making proposals or recommendations regarding the design of structured finance products that a DCRA rates.**

**1.15 A DCRA should institute policies and procedures that clearly specify a person responsible for a DCRA's and a DCRA's employees' compliance with the provisions of a DCRA's code of conduct and with applicable laws and regulations. This person's reporting lines and compensation should be independent of a DCRA's rating operations.**

**Compliance officer:** It is strongly recommended that a DCRA have an officer to ensure compliance with all code of conduct provisions. The compliance officer should report to the DCRA Board or Chief Executive Officer or President. This officer would continuously monitor any violations of the code by any employee and be expected to prepare and submit regular status reports on compliance with DCRA regulations and the code of ethical conduct.

**The chief executive officer or president and all other employees of the company will be required to affirm in writing their compliance with the company's code of ethical conduct.** An affirmation must be obtained from all employees, legally binding them to the company's code of ethical conduct. All DCRA employees must ensure strict adherence.

**1.16 Upon becoming aware that another employee or entity under common control with the DCRA is or has engaged in conduct that is illegal, unethical or contrary to the DCRA's code of conduct, a DCRA employee should report such information immediately to the individual in charge of compliance or an officer of the DCRA, as appropriate, so proper action may be taken. A DCRA's employees are not necessarily expected to be experts in the law.**

**Nonetheless, its employees are expected to report the activities that a reasonable person would question. Any DCRA officer who receives such a report from a DCRA employee 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 DCRA. DCRA management should prohibit retaliation by other DCRA staff or by the DCRA itself against any employees who, in good faith, makes such reports.**

**Whistle-blower policy:** A DCRA must have detailed whistle-blower policies encouraging all employees to report (with complete confidentiality) any unethical practice or grave misconduct to a designated authority. All reported events should be taken seriously and investigated promptly. The investigation report should be submitted within a stipulated time frame (as specified by the DCRA) from the receipt of the complaint. There should be provisions to prevent discrimination, retaliation, or harassment against any whistle-blower or participant in the investigation process. A transparent whistle-blower policy encourages and supports disclosure by employees; active compliance with it will go a long way in preventing wrongdoing in the DCRA.

## 2. DCRA's Independence and Avoidance of Conflicts of Interest

### A. General

- 2.1 A DCRA should not forbear or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on the DCRA, an issuer, an investor, or other market participant.**
- 2.2 A DCRA and its analysts should use care and professional judgment to maintain both the substance and appearance of independence and objectivity.**

The organizational structure and design of the rating process should ensure that rating decisions are not influenced by rating fees, any other revenues or business potential from the rated entity, or the consequences of a rating action.

**The Amount of Rating Fees Received by a DCRA:** The rating process must ensure that the final rating assigned is not influenced by the amount of rating fees received from the rated entity. The existence of such a process will instill confidence in users of a DCRA's credit rating to enhance the DCRA's credibility. Rating fees can be linked to the amount of debt rated or some other measure, but never to the rating assigned or to the success of the debt issue. Further, a DCRA should publicly disclose its broad fee structure, including the minimum and maximum rating fees charged for any issue or issuer, a best practice among DCRA's and also incorporated in regulations in some countries.

Separation of personnel with business development responsibility and analytical responsibility will ensure that business pressures do not influence ratings assigned. Compensation of a DCRA's rating analysts should be independent of rating fees and the final rating assigned. This will result in greater acceptance of the ratings by investors, enhancing credibility. In an ideal scenario, analytical staff and rating committee members should not know the rating fee charged for the specific issues that they rate.

**The Consequences of a Rating Action on DCRA Business Prospects.** The business relationship of an entity with a DCRA should in no way influence the process of assigning a rating to that entity or any of its group entities. Business relationships should be kept

completely isolated from the analytical process. This must be adopted by all DCRA's because it is possible that a few major clients do contribute to major DCRA revenues, especially during its formative years. Consideration of business prospects in the analytical process may secure immediate business, but such a shortsighted policy will have a major impact on DCRA credibility and affect its long term prospects. All DCRA's should therefore remove employees with business development responsibility from the analytical process to prevent influence of the business development viewpoint on the credit risk assessment. This practice has been identified as an essential code of conduct in several national and international regulations.

**2.3 The determination of a credit rating should be influenced only by factors relevant to the credit assessment.**

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

**A DCRA should adopt a definition of what constitutes a conflict of interest, publish it, and all company officers and employees should avoid such conflicts.** Clarity on conflicts of interest will help ensure rating decisions are without bias and personal influence.

**If a rating is assigned to a related entity, this should be adequately disclosed in all rating communication.** If a rating is assigned to an entity in which any member of a DCRA's board or senior management has a direct or indirect interest or involvement, such a person should be excluded from voting on the rating, even if he or she is part of the rating committee. The relevant details about the involvement should also be adequately disclosed in every public rating write-up. This is to avoid any possible influences or biases and to signal that the rating has been arrived at through an unbiased process.

**DCRA disclosures of actual and potential conflicts of interest should be complete, clear, and prominent.**

**2.5 A DCRA should separate, operationally and legally, its credit rating business and DCRA analysts from any other businesses of the DCRA, including consulting businesses, that may present a conflict of interest. A DCRA should ensure that ancillary business operations**

**which do not necessarily present conflicts of interest with the DCRA's rating business have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise. A DCRA should also define what it considers, and does not consider, to be an ancillary business and why.**

**Conflicts of Interest between Other Businesses:** Globally, credit rating agencies have diversified into related businesses such as research and advisory and consulting services. This phenomenon occurs both as a natural progression of the ratings business, and also as a means to provide growth opportunities for well-trained manpower. The danger of developing such related businesses is a possible conflict of interest in which the DCRA giving the rating is itself, directly or indirectly, providing the entity some financial or management advice. Where advisory- or a consultancy-based business coexists alongside a ratings business, firewalls should be set up during the course of operations. Ideally, these business lines should be in separate legal entities, with minimum operational links; the operating staff, officers, and analysts of the distinct business lines should be maintained separately.

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

**2.6 A DCRA should adopt written internal procedures and mechanisms to (1) identify, and (2) eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the opinions and analyses a DCRA makes or the judgment and analyses of the individuals a DCRA employs who have an influence on ratings decisions. A DCRA's code of conduct should also state that the DCRA will disclose such conflict avoidance and management measures.**

**Rules for avoiding conflicts of interest should be applied to all employees who participate directly or indirectly in the credit rating process, particularly to analysts and rating committee members.** Such rules can also be made applicable to the board of directors. It is recommended that the board of directors, upon election, affirm its adherence to the DCRA's code of conduct.

**2.7 A DCRA's disclosures of actual and potential conflicts of interest should be complete, timely, clear, concise, specific and prominent.**

**Any potential conflicts of interest from any member of the rating team must be declared before participating in a credit rating engagement.** Where a conflict of interest exists as defined by company policy and rules, the employee concerned shall refrain from participating in the rating assignment and rating committee proceedings.

**A DCRA should periodically and publicly disclose its ownership pattern, including the details of promoters and other shareholders along with the extent of their shareholding.** A DCRA should also clearly and unequivocally disclose affiliations and technical partnerships it has with any international rating agency.

## **2.8 A DCRA should disclose the general nature of its compensation arrangements with rated entities.**

- a. Where a DCRA receives from a rated entity compensation unrelated to its ratings service, such as compensation for consulting services, a DCRA should disclose the proportion such non-rating fees constitute against the fees the DCRA receives from the entity for ratings services.**
- b. A DCRA should disclose if it receives 10 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. DCRA's 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 DCRA's can conduct their own analyses independently of the DCRA contracted by the issuers and/or originators to provide a rating. DCRA's should disclose in their rating announcements whether the issuer of a structured finance product has informed it that it is publicly disclosing all relevant information about the product being rated or if the information remains non-public.**

**A DCRA should ensure that compensation for analytical personnel is not linked to revenues earned from the ratings that are executed by the analysts concerned.** This will nurture a neutral analytical atmosphere in which revenues earned on the assignment will not influence ratings.

**A DCRA should disclose whether any issuer, originator, arranger, subscriber, or other client and its affiliates make up more than 10% of total DCRA revenue.**

**Each DCRA should adopt a formal policy of disclosure when it rates securities issued by its promoter.** The policy in such cases should ensure that adequate disclosure of the shareholding is made in all rating communication so the market is aware of the potential conflict of interest.

**2.9 A DCRA and its employees should not engage in any securities or derivatives trading presenting conflicts of interest with the DCRA's rating activities.**

**2.10 In instances where rated entities (e.g., governments) have, or are simultaneously pursuing, oversight functions related to the DCRA, the DCRA should use different employees to conduct its rating actions than those employees involved in its oversight issues.**

### **C. DCRA Analyst and Employee Independence**

**2.11 Reporting lines for DCRA employees and their compensation arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest.**

**a. A DCRA's code of conduct should also state that a DCRA analyst will not be compensated or evaluated on the basis of the amount of revenue that the DCRA derives from issuers that the analyst rates or with which the analyst regularly interacts.**

**b. A DCRA should conduct formal and periodic reviews of compensation policies and practices for DCRA 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 DCRA's rating process.**

**2.12 A DCRA should not have employees who are directly involved in the rating process initiate, or participate in, discussions regarding fees or payments with any entity they rate.**

**The Consequences of a Rating Action on DCRA Business Prospects:** The business relationship of an entity with a DCRA should in no way influence the process of assigning a rating to that entity or any of its group entities. Business relationships should be kept completely isolated from the analytical process. This must be adopted by all DCRA's because it is possible that a few major clients do contribute to major DCRA revenues, especially during its formative years. Consideration of business prospects in the analytical process may secure immediate business, but such a shortsighted policy will have a major impact on DCRA credibility and affect its long term prospects. All DCRA's should therefore remove employees with business development responsibility from the analytical process to prevent influence of the business development viewpoint on the credit risk assessment. This practice has been identified as essential in several national and international regulations.

**2.13 No DCRA employee should participate in or otherwise influence the determination of the DCRA's rating of any particular entity or obligation 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 (i.e., 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.

**2.14 A DCRA's analysts and anyone involved in the rating process (or their spouse, partner or minor children) should 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 analyst's area of primary analytical responsibility, other than holdings in diversified collective investment schemes.**

**In order to maintain analysts' neutrality and to prevent employees from making gain through misuse of confidential information, a DCRA should adopt a trading and investment declaration policy.** This could categorize possible investment avenues into classes: acceptable, acceptable with prior permission, and unacceptable. The securities that fall into each of these categories should be based on an articulated policy that is well disseminated within the organization.

**2.15 DCRA employees should be prohibited from soliciting money, gifts or favors from anyone with whom the DCRA does business and should be prohibited from accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.**

**2.16 Any DCRA analyst who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest (including, for example, any personal relationship with an employee of a rated entity or agent of such entity within his or her area of analytic responsibility), should be required to disclose such relationship to the appropriate manager or officer of the DCRA, as determined by the DCRA's compliance policies.**

**2.17 A DCRA should establish policies and procedures for reviewing the past work of analysts that leave the employment of the DCRA and join an issuer the DCRA analyst has been involved in rating, or a financial firm with which the DCRA analyst has had significant dealings as part of his or her duties at the DCRA.**

## 3. DCRA Responsibilities to the Investing Public and Issuers

### A. Transparency and Timeliness of Ratings Disclosure

#### 3.1 A DCRA should distribute in a timely manner its ratings decisions regarding the entities and securities it rates.

**All rating actions should be announced promptly, and a list of outstanding ratings made freely available on a DCRA's Web site.** Ratings are time-critical. After the issuer accepts the rating, its dissemination should not be delayed. Acceptance from the issuer may be needed when the rating is assigned the first time; but no further acceptance is needed for subsequent rating actions. A DCRA should formulate a time to-release procedure to be followed after the initial rating acceptance. Similarly, a time to-release procedure has to be put in place for revisions of ratings that are already public. Strict timelines are highly desirable in this time-to-release procedure for communicating the rating to the issuer, receiving acceptance, and preparing the media release and release of the rating. This assumes particular significance when bond markets become more liquid and rating information may affect trading prices. It is recommended that a 5-day time frame be adopted for the entire cycle. It is also recommended that a DCRA have a well-defined internal policy for public dissemination of rating information. When ratings are changed, delay by the issuer in responding should not hinder a DCRA from publicizing the revised rating.

**Private ratings:** A DCRA may be requested, either by issuers or by third parties, to assign private ratings. In such cases, the DCRA shall not publicly disclose the ratings. To formalize this, and to ensure that the facility is not misused, it is highly desirable that a DCRA adopt a specific policy of complete confidentiality in such cases. The policy will clearly articulate the non-publication and non-dissemination of the private rating. At the same time, because the rating is private, no specific public debt may be raised using the private rating because the DCRA will not be able to disclose any subsequent change in credit quality through public release.

#### 3.2 A DCRA should publicly disclose its policies for distributing ratings, reports and updates.

#### 3.3 A DCRA should indicate with each of its ratings when the rating was last updated. Each rating announcement should also indicate

**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 DCRA should explain this fact in the ratings announcement, and indicate where a discussion of how the different methodologies and other important aspects factored into the rating decision.**

**It is highly desirable that robust rating policies and methodologies form a part of the operations manual and are consistently applied across ratings.**

The credit rating process details the various steps and activities involved in assigning a credit rating, starting from the signing of the rating agreement, to the assignment of the rating and subsequent actions such as rating dissemination and surveillance. Policies and methodologies govern each step of this process, and strict adherence to the process will help maintain the credibility and integrity of the ratings. Further, it is highly desirable that every DCRA has an operations manual that provides step-by-step guidelines for rating analysts to conduct rating assignments and that formalizes the rating process. Each step in the process should also adhere to a strict time line. While a lack of cooperation from the issuer can delay assignment execution, barring such exceptions, all DCRAs should adopt well-defined time lines for completion of each rating assignment. The adherence to time lines is critical not only for new ratings, but also for subsequent rating actions. Credit ratings encompass market-sensitive information, and timely actions are essential. Delayed action adds no value for the investor, erodes the rating's value, may undermine DCRA credibility, and indirectly hurts debt market prospects.

However, a DCRA should not compromise analytical quality to arrive at quick rating decisions. It is desirable that a DCRA publicize the approximate time line of the rating process to set market expectations. Transparent dissemination of information about rating policies and methodologies is necessary. Awareness about the rating process, policies, and methodologies is not high in most markets in the region, and such disclosures will greatly help users. Transparent disclosure will enhance DCRA credibility and integrity. Public scrutiny of DCRAs for ethical conduct assures that they remain competent, objective, and fair.

**Policy relating to active dependence on third parties:** While executing rating assignments, analysts often rely on third-party certifications, such as the auditor's report on annual accounts, along with reports and representations from bankers, solicitors, valuers, actuaries, and other professionals. Each DCRA should adopt a uniform and consistent

policy on the degree of reliance it will place on such third party information and certification.

**3.4 Except for “private ratings” provided only to the issuer, the DCRA should 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.**

**Unaccepted ratings:** Initially, in an interactive rating, the issuer will normally be given the choice of accepting or not accepting the rating. In such cases, it is wrong to disclose the rating without obtaining written consent. But once the rating is accepted for the first time, a DCRA should not seek acceptance before publicizing changes in the rating. It is highly desirable that a DCRA have a published policy regarding the non-disclosure of unaccepted ratings. Where the rating is interactive and the rated entity has not accepted the initially assigned rating, it is recommended the information pertaining to the entity be held in the strictest confidence and not be disclosed in DCRA rating lists. Such unaccepted ratings may only be shared with regulators or a court of law, upon specific request to provide such information.

**3.5 A DCRA should publish sufficient information about its 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 DCRA.**

**This information will include (but not be limited to) the meaning of each rating category and the definition of default or recovery, and the time horizon the DCRA used when making a rating decision.**

- a. Where a DCRA rates a structured finance product, it should provide investors and/or subscribers (depending on the DCRA’s business model) with sufficient information about its loss and cash-flow analysis so that an investor allowed to invest in the product can understand the basis for the DCRA’s rating. A DCRA should also disclose the degree to which it analyzes how sensitive a rating of a structured finance product is to changes in the DCRA’s underlying rating assumptions.**

- b. A DCRA should differentiate ratings of structured finance products from traditional corporate bond ratings, preferably through a different rating symbology. A DCRA should also disclose how this differentiation functions. A DCRA should clearly define a given rating symbol and apply it in a consistent manner for all types of securities to which that symbol is assigned.**
- c. A DCRA should 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 DCRA rates. A DCRA should clearly indicate the attributes and limitations of each credit opinion, and the limits to which the DCRA verifies information provided to it by the issuer or originator of a rated security.**

**A DCRA should disclose whether its ratings indicate the probability of default on the rated instrument, issuer, or expected loss (which factors in recoveries post default).**

Ratings can indicate either probability of default or expected loss. The underlying principles guiding each of these approaches are not similar, and probability of default ratings may not be directly comparable with expected loss ratings, especially at lower rating levels. Each DCRA should state publicly the approach it has adopted. Investors and market participants will therefore compare only those ratings based on similar approaches or make appropriate adjustments before comparison.

It is recommended that a DCRA adopt the probability of default approach for ease of operation and due to the lack of data and experience in assessing recoveries after default in most economies in the region. Regardless of the approach, the rating communication and all communications in relation to rating symbols should clearly state what the particular rating indicates. This will help users understand the significance of the ratings and to compare ratings across DCRA's after appropriate adjustments.

**A missed payment on a debt obligation on a due date or after a pre-specified grace period (if any) should constitute default.**

Given the increasingly important role of ratings, especially in light of the Basel II guidelines, a consistent and uniform default definition is critical because it has a significant impact on the reliability and comparability of ratings across DCRA's. A rigorous and transparent definition of default makes a DCRA's ratings more meaningful and accurate. Clear articulation of this definition is therefore critical to DCRA transparency. When strictly applied, the definition will underpin the validity of all DCRA ratings.

In most bond markets, investors have favored instantaneous recognition of default, in contrast to the relative forbearance of the bank loan market, in which 90 days overdue is typically construed as default. Because most DCRA's cater primarily to bond market investors, it is recommended that a missed payment on a debt obligation as on a due date or after a pre-specified grace period (if any) should constitute default. The filing of bankruptcy before any missed payment on debt obligations, and involuntary rescheduling of debt obligations that is harmful to investor interest (such as lower coupon, extension of maturity, and interest waiver), should also be considered default.

A DCRA should adhere to its disclosed definition of default without exception, ensuring easier recognition of default. Such a definition should not include any subjective grace period, and the resulting default statistics should therefore not be influenced by any subjective factors and may be used by investors as an important input for credit pricing and provisioning requirements.

In case a DCRA adopts a default definition that is divergent from the recommendation above, such a divergence should be disclosed and highlighted in all DCRA communications relating to default. The DCRA should also provide the rationale for adopting a particular default definition; ensuring that investors are clear about the ideology behind the rating.

Irrespective of whether a DCRA adopts an expected loss or probability of default approach for the assessment of credit quality, it should adhere strictly to its objective default definition and ensure that default statistics are computed and published based on this definition.

### **3.6 When issuing or revising a rating, the DCRA should explain in its press releases and reports the key elements underlying the rating opinion.**

**A credit rating announcement shall be accompanied by a report giving the principal reasons for the rating.** A credit rating is an informed opinion resulting from in-depth analysis of various credit rating factors. The opinion takes account of information obtained from the issuer and secondary sources and a DCRA's in house experts, which is assessed within clearly spelled out rating criteria. Each rating therefore has to be accompanied by a rating report that details the above. A credit rating report should highlight the basis of a DCRA's rating decision. With every rating action accompanied by such a report, it should also reflect the quality and consistency of analysis. The report should highlight the key factors affecting the rating and provide forward looking opinions on these factors. Because such a report is the only public document available to the investor, it is critical that the document represent the highest standards of quality in content, accuracy, and timeliness.

It is also recommended that each DCRA create and maintain a Web site for investors, issuers, and other stakeholders, and make rating rationale available there, either free of charge or at a nominal fee. A credit rating and the rating report should be current and updated to reflect credit quality at any given point of time.

**3.7 Where feasible and appropriate, prior to issuing or revising a rating, the DCRA should 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 DCRA would wish to be made aware of in order to produce an accurate rating. A DCRA will duly evaluate the response. Where in a particular circumstance the DCRA has not informed the issuer prior to issuing or revising a rating, the DCRA should inform the issuer as soon as practical thereafter and, generally, should explain the reason for the delay.**

For interactive ratings, it is desirable that the rating process include a detailed meeting with the management of the issuer to gain a better perspective of the rated entity. Open dialogue between a DCRA and an issuer is in the best interest of investors, offering deeper insight into the issuer's governance, policies, and corporate strategy. It helps the analyst to understand factors such as financial and business plans and management policies, which can have a critical bearing on the rating. It is also an important forum for analysts to arrive at a qualitative assessment of management competence; this again can influence the credit rating of the entity.

Although the issues discussed in a management meeting can vary, it would be good practice to list key issues for such management meetings to gain maximum advantage. Insights that can emerge from management meetings for rating assignments in manufacturing and services sector include:

- i. the status and prospects of the issuer's industry;
- ii. the issuer's financial policies and objectives, the reasoning behind them, and its plans for achieving them;
- iii. a broad overview of the issuer's major business segments, and comparisons with competitors; and
- iv. an issuer's capital expenditure plans and alternative financing options, both in its own right and as a means of assessing the management's risk appetite.

Although a DCRA should not be unduly influenced by the financial projections of the issuer or the issuer's view of its prospects, these projections are a valuable tool in the rating

process because they serve as a fair indicator of:

- i. management plans;
- ii. management's assessment of possible challenges; and
- iii. its planned solutions to deal with such problems.

These discussions are important in making the assessment forward looking, rather than a reflection of past financial performance. Because the credit rating is used by investors for estimating future credit losses, an assessment based purely on past performance may not add value and can seriously undermine a DCRA's credibility.

**3.8 In order to promote transparency and to enable the market to best judge the performance of the ratings, the DCRA, where possible, should publish sufficient information about the historical default rates of DCRA rating categories and whether the default rates of these categories have changed over time, so that interested parties can understand the historical performance of each category and if and how rating categories have changed, and be able to draw quality comparisons among ratings given by different CRAs. If the nature of the rating or other circumstances makes a historical default rate inappropriate, statistically invalid, or otherwise likely to mislead the users of the rating, the DCRA should explain this. This information should 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 CRAs.**

**Every rating agency should publish, at least annually, a default and transition study, along with the methodology used for calculating default rates.** Default studies are central to evaluating the capability of a credit rating agency and whether its ratings can predict default over a period of time. Even the new capital accord (Basel II) recommends publishing default rates on a periodic basis and suggests use of these default rates for mapping risk weights to various rating categories. It therefore becomes important that a DCRA publish such studies periodically to let investors, regulators, and other market participants evaluate its performance. If there is a high correlation between ratings and default rates, the ratings are clearly effective in discerning the creditworthiness of the issue or issuer and are a valuable tool for financial markets. On the other hand, if such correlation cannot be clearly established, then the rating process is not robust enough, and measures to make it more robust are required.



The default study should provide details of the following:

- i. annual default rates for each rating category;
- ii. 3-year average cumulative default rates;
- iii. 1-year transition rates

The publication of default and transition rates will help investors quantify the credit risk of their debt exposure. Transition rates are particularly useful for investors holding instruments for time horizons shorter than their maturities. Apart from these advantages, because the structuring, rating, and pricing of credit-enhanced products depend heavily on default and transition rates of the underlying entities, timely and regular publication will help the market structure and price such deals accurately.

**In the methodology employed for calculation of the default rates, the following common features are recommended.** Default rates should be computed by taking into account long-term ratings outstanding on an issuer basis. It is very important that the media release announcing the default study describes exactly which type of ratings have been considered (and excluded along with rationale for exclusion) while computing the default rates. Default and transition rates for subcategories of ratings such as structured finance securities, public sector issuers, and sovereign issuers (if assigned), or default and transition rates based on the amount of exposure, could also be published as complements (and not as a substitute) to the main study.

Wherever relevant, default rates could also be computed and published according to industry or region. However, not all DCRA's would have equal or comparable reach in every sector, coupled with the nuances of individual geographies that may render such statistics not entirely comparable. The base dataset of the study should be well-defined, that is, a clear description of the constituents of the dataset should be mentioned along with the study.

The time horizon for the study can be as long as the period of operations of a DCRA. This is especially desirable because, with greater age, the robustness of default rates increases, and the advantage of incorporating one or more economic cycles can also be incorporated. If the DCRA uses a time period less than the period of its operations, then it would be desirable that the study specify the reason for using a shorter time period. This will help dispel any notion that the DCRA has not covered all the defaults. Moreover, if the DCRA has omitted any period of high defaults (with or without assigning specific reasoning for such exclusion), investors will be aware of the same and they can factor it into decisions. Publishing both the withdrawal-adjusted and - unadjusted numbers is ideal, but it should be discretionary rather than compulsory. If withdrawal-unadjusted rates are higher, then

rating withdrawals may represent hidden defaults.

The static pools or cohorts of ratings should be formed on specific dates, and it is desirable that the practice be consistently followed to ensure comparability. Static pools (cohorts) should be formed such that an issuer newly rated in the year is only considered in the pool (cohort) of the next year. In addition to forming annual cohorts, it is desirable to form monthly cohorts and publish defaults for a rolling 12-month period to give more timely information to the market, wherever data sets are meaningful and computation at such frequency is practical. This is in line with international best practice.

The cumulative default rates should be published as an average of all the static pools (cohorts). Additionally, the different types of cumulative default rates, that is, marginal default rates, average cumulative default rates, and weighted average cumulative default rates could also be published; they are complements rather than substitutes. In the absence of a default study due to a paucity of historical data, proxy information such as the number of ratings, number of upgrades and downgrades, and others, should be published as an interim measure. Irrespective of the rating approach, the default statistics should be computed based on recognition of default on the first date of missed payment or filing for bankruptcy, whichever is earlier. This is an unambiguous approach and does not factor in assumptions of recovery and loss; however, the DCRA's definition of default (or missed payment) should be explained in the default study or made available separately to provide clarity on its measurement of default and treatment of certain events such as distressed debt exchanges and rescheduling.

**Transition rates should ideally be calculated and published on the basis of a 1- year observed transition.** Such transition matrices calculate the probability that issuers in a specific rating class at the beginning of a time period have remained in their class of origin at the end of the time period. This is known as “stability”, and is the inverse of “transition”, or the likelihood of moving between rating levels because of upgrades or downgrades. A lower probability of transition between rating classes is a proxy for the stability of ratings. Ideally, the level of transition rates should be moderate, and higher rating categories should have lower transition rates.

**3.9 For each rating, the DCRA should disclose whether the issuer participated in the rating process. Each rating not initiated at the request of the issuer should be identified as such. A DCRA should also disclose its policies and procedures regarding unsolicited ratings.**

**Unsolicited ratings:** Unsolicited ratings are those that the rated entity does not consent to or participate in. Whenever a DCRA assigns unsolicited ratings, it should distinguish them, using some sort of notation, from interactive ratings. A clear distinguishing prefix or suffix (such as “pi” to denote public information rating) will help the user make an informed judgment about using the rating.

Although the International Organization of Securities Commissions (IOSCO) Code for Credit Rating Agencies accommodates unsolicited ratings as long as they are identified as such, these ratings are often based on less-than-exhaustive information and are therefore perceived as less thorough, accurate, and fair than interactive ratings.

**3.10 Because users of credit ratings rely on an existing awareness of DCRA methodologies, practices, procedures and processes, the DCRA should fully and publicly disclose any material modification to its methodologies and significant practices, procedures, and processes. Where feasible and appropriate, disclosure of such material modifications should be made prior to their going into effect. A DCRA should carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.**

**Market Feedback before Major Policy Changes:** It is highly desirable that a DCRA seek feedback from market participants (issuers, investors, regulators, and academic institutions) whenever it contemplates major changes in rating criteria or key rating policies. Such feedback should, to the extent feasible, be incorporated in the contemplated change. A DCRA should also publish the results of impact studies before implementing changes in criteria so that market participants appreciate the need for the change. DCRA's must make a conscious effort to ensure operations are transparent and open to public scrutiny.

## **B. The Treatment of Confidential Information**

**3.11 A DCRA should 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. Unless otherwise permitted by the confidentiality agreement and consistent with applicable laws or regulations,**

**the DCRA and its employees should not disclose confidential information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise.**

**All information submitted by a rated entity or an issuer in connection with a credit rating assignment is presumed confidential and shall be kept so at all times.** The information provided by the company may be highly sensitive and confidential and may be provided by the issuer to a DCRA only for the purpose of arriving at the ratings. Every DCRA must maintain such information in strict confidence and cannot use it for any purpose other than rating. When the assigned rating is made public, the DCRA should ensure that the rating report accompanying the rating and the other information about the entity present in the report should not breach this confidentiality. Contact with bankers, auditors, and others, if made as part of the rating process, should be with the ratee's consent.

Every DCRA must have a confidentiality policy to ensure that the confidential information shared by the issuer is not disclosed outside of the ratings business. The fact that an issuer has sought a rating is in itself confidential information, and is to be made public only when an accepted initial rating is released. In case the initial rating is not accepted, the assignment should remain confidential and should not be disclosed unless by lawful order of a Court of law or lawful authority.

### **3.12 A DCRA should use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.**

**The confidentiality requirement must be binding on all company officers, employees and external rating committee members, if any, who have or may have access to such confidential information, and acknowledged in writing.** Confidentiality of information is of paramount importance to a DCRA, and relevant measures and processes must be in place in the organizational structure to maintain confidentiality of such information at all points in time. All persons who may have access to such confidential information must, without exception, acknowledge compliance with the code of confidentiality in writing. Such an affirmation by way of self-certification should be obtained from such persons on a periodic basis as a legally binding undertaking as well as at the time of termination of the employment.

**Members of the board of directors shall not have access to confidential information submitted by the rated entity unless a director is a member of the rating committee.**

To ensure confidentiality is not breached, a DCRA's policy should hold that even members of the DCRA board of directors will not have privileged access to a ratee's confidential information, unless they are part of the rating committee.

**Confidentiality of information is a contractual obligation and should be formally documented in the agreement to perform credit rating services.** Confidentiality of information should be part of the contractual obligations of a DCRA and documented in rating agreements.

- 3.13 DCRA employees should take all reasonable measures to protect all property and records belonging to or in possession of the DCRA from fraud, theft or misuse.**
- 3.14 DCRA employees should be prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.**
- 3.15 In preservation of confidential information, DCRA employees should familiarize themselves with the internal securities trading policies maintained by their employer, and periodically certify their compliance as required by such policies.**
- 3.16 DCRA employees should not selectively disclose any non-public information about rating opinions or possible future rating actions of the DCRA, except to the issuer or its designated agents.**
- 3.17 DCRA employees should not share confidential information entrusted to the DCRA with employees of any affiliated entities that are not CRAs/DCRAs. DCRA employees should not share confidential information within the DCRA except on an "as needed" basis.**
- 3.18 DCRA employees should not use or share confidential information for the purpose of trading securities, or for any other purpose except the conduct of the DCRA's business.**

## 4. Disclosure of the Code of Conduct and Communication with Market Participants

**4.1 A DCRA should disclose to the public its code of conduct and describe how the provisions of its code of conduct fully implement the provisions of the IOSCO Principles Regarding the Activities of Credit Rating Agencies and the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies. If a DCRA's code of conduct deviates from the IOSCO provisions, the DCRA should explain where and why these deviations exist, and how any deviations nonetheless achieve the objectives contained in the IOSCO provisions. A DCRA should also describe generally how it intends to enforce its code of conduct and should disclose on a timely basis any changes to its code of conduct or how it is implemented and enforced.**

**A DCRA should adopt its own code of ethical conduct, applicable to all employees and board members.** It is desirable that a DCRA adopt a code of conduct, drafted and modified as per DCRA requirements and scope of operations. This code, with assurance of rigorous compliance, should be published on the DCRA's Web site.

**A DCRA should formally adopt the IOSCO Code of Conduct and the prescribed code of conduct.** This ACRAA Code of Conduct Fundamentals for Domestic Credit Rating Agencies, April 2011 are based on the IOSCO Code. The IOSCO Code of Conduct is a yardstick against which progress in self-regulation by a DCRA can be measured, subject to the constraints of its stage of evolution and the markets in which it operates. The adoption of an internationally recognized code will showcase the DCRA's commitment to the establishment and maintenance of consistently high standards.

To the extent that current legislation, policy, regulatory arrangements, or prevalent market practices may impede adherence to these principles, a DCRA should strive to make appropriate changes. There is often no single correct approach to such changes, and they should reflect local market conditions and historical development. Wherever these principles cannot be adopted verbatim due to specific market conditions or existing practices, a DCRA should highlight the extent of non adoption along with specific reasons for such deviation.

**4.2 A DCRA should establish a function within its organization charged with communicating with market participants and the public about any questions, concerns or complaints that the DCRA may receive. The objective of this function should be to help ensure that the DCRA’s officers and management are informed of those issues that the DCRA’s officers and management would want to be made aware of when setting the organization’s policies.**

**Conducting Outreach:** A DCRA should publish articulate reports on matters of industry-wide importance with the broad objective of educating and enhancing the depth of the markets in which it operates. Ratings consistency studies, financial comparative studies such as median analysis, and other data-mining studies can be pursued and possibly made into regular featured publications. DCRA’s should also undertake outreach initiatives such as discussion forums for investors, conference calls after major rating actions to provide additional clarity to investors, periodic publication of criteria, frequently asked questions, analytical opinion pieces, and research articles. These measures can enhance DCRA credibility among investors, issuers, and regulators.

**4.3 A DCRA should publish in a prominent position on its home webpage links to**

- i. the DCRA’s code of conduct;**
- ii. a description of the methodologies it uses; and**
- iii. information about the DCRA’s historic performance data.**

## About ACRAA

The Association of Credit Rating Agencies in Asia (ACRAA) was organized on 14 September 2001 under the sponsorship of the Asian Development Bank, and started operations on 1 January 2002. There were originally 15 rating agency members from 10 Asian countries. There are now 28 members from 15 countries.

The purposes of ACRAA are:

- a. To develop and maintain cooperative efforts that promote interaction and exchange of ideas, experiences, information, knowledge and skills among credit rating agencies in Asia and that would enhance their capabilities and their role of providing reliable market information.
- b. To undertake activities aimed at promoting the adoption of best practices and common standards that ensure high quality and comparability of credit ratings throughout the region, following the highest norms of ethics and professional conduct.
- c. To undertake activities aimed at promoting the development of Asia's bond markets and cross-border investment throughout the region.

These purposes are pursued through joint training workshops, best practices dialogues, conferences with regulatory authorities and participation in various activities promoting knowledge of credit rating and encouraging credit rating discipline.

The present Officers and members of the Board of Directors are:

Mr. Kazuo Imai	- Chairman
Mr. Naresh Takkar	- Vice Chairman
Mr. Faheem Ahmad	- Director and Chairman, Best Practices Committee
Mr. Muzaffar Ahmed	- Director and Chairman, Training Committee
Mr. Santiago F. Dumlao, Jr.	- Secretary General
Ms. Rosie E. Victoria	- Executive Assistant

Office Address : 15<sup>th</sup> Floor, Pryce Center, 1179 Chino Roces Avenue  
Cor. Bagtikan Street, Makati City 1203, Philippines  
Tel/Fax : (632) 890-4562  
Email : [santiago.dumlao.jr@acraa.com](mailto:santiago.dumlao.jr@acraa.com) / [rosie.victoria@acraa.com](mailto:rosie.victoria@acraa.com)  
Website : [www.acraa.com](http://www.acraa.com)



# Directory of ACRAA Members

ACRAA now has 28 members from 15 countries

1	Bahrain, Kingdom of	1	<b>Mr. Nasir Ali Merchant</b> Acting CEO	<b>Islamic International Rating Agency</b> Al-Zamil Tower, 7th Floor, Govt. Avenue, Manama 305, P.O. Box 20582, Manama, Kingdom of Bahrain Tel: (973) 17211606 / Fax: (973) 17211605 E-mail: nasir.ali@iirating.com / iira@iirating.com Website: www.iirating.com
2	Bangladesh	2	<b>Mr. Muzaffar Ahmed</b> President and CEO	<b>Credit Rating Information &amp; Services Limited</b> Nakshi Homes (4 <sup>th</sup> & 5th Floor), 6/1A Segunbagicha Dhaka 1000 Bangladesh Tel: 8802 9514767-8 / Fax: (8802) 956-5783 E-mail: mahmedcrisibd@gmail.com Website: www.crisibd.com /
		3	<b>Mr. Hamidul Huq</b> Managing Director & CEO	<b>Credit Rating Agency of Bangladesh Ltd. (CRAB)</b> 195 Motijheel Commercial Area, 4th Floor, Suite 403, Dhaka 1000, Bangladesh Tel: 8802-9571238, 9571497, / Fax: 8802-9563837 E-mail: crab@intechworld.net Website: www.crab.com.bd/www.crabrating.com
3	China, People's Republic	4	<b>Mr. Michael Ye</b> Vice Chairman & CEO	<b>China Chengxin International Credit Rating Co., Ltd.</b> 12F, Tower D, Beijing Merchants International Financial Center No. 156 Fuxingmennei Avenue, Beijing, PRC. 100031 Tel: 86 10-6642 8877 ; Fax: 86 10-6642 6100 E-mail: min.ye@moodys.com Website: www.ccxi.com.cn
		5	<b>Mr. Li Kwong Chung</b> President & Chief Executive Officer	<b>China Lianhe Credit Rating Co, Ltd.</b> 7/F, Tower D, Central International Trade Center, 6A Jianguomenwai Avenue, Chaoyang District, Beijing, P.R. China Tel: 86 (10) 85679696-8898 Fax: 86(10) 85679228 E-mail: kwong.li@lianheratings.com.cn Website: www.lianheratings.com.cn
		6	<b>Mr. Guan Jianzhong</b> Chairman & President	<b>Dagong Gobal Credit Rating Co., Ltd.</b> 29 <sup>th</sup> Floor, Eagle Run Plaza, No. 26 Xiaoyun Road Chaoyang District, Beijing, P.R. China 100125 Tel. 86-10-51087768; Fax. 86-10-84583355 E-mail: jason@dagongcredit.com Website: www.dagongcredit.com
		7	<b>Mr. Zhu Rongen</b> President	<b>Shanghai Brilliance Credit Rating &amp; Investors Service Co., Ltd.</b> 14F Huasheng Bldg., 398 Hankou Rd., Shanghai 200001, China Tel: 0086-21-63518779 E-mail: zre@shxsj.com Website: www.shxsj.com
		8	<b>Mr. Xu Ming Qi</b> General Manager	<b>Shanghai Far East Credit Rating Co., Ltd.</b> 9F Block 10, 990 Dalian Road, Shanghai 200092 People's Republic of China Tel: 86-21-6142 8199 Fax: 86-21-6142 8111 E-mail: xmq@sass.org.cn Website: www.fareast-cr.com ; www.xfn.com/creditrating

4	India	9	<b>Mr. Vivek Kulkarni, IAS</b> Managing Director	<b>Brickwork Ratings India Pvt. Ltd.</b> 3 <sup>rd</sup> Floor, Raj Alkaa Park, 29/3 & 32/2, Kalena Agrahara, Bannerghatta Road, Bangalore 560 076 India Tel : Dir : (91 80) 40409940 Fax : (91 80) 26593673 E-mail: Vivek.Kulkarni@BrickworkRatings.com Website : www.BrickworkRatings.com
		10	<b>Mr. Desh Raj Dogra</b> Managing Director & CEO	<b>Credit Analysis and Research Limited</b> 4F, Godrej Coliseum, Somaiya Hospital Rd., Off Eastern Express Highway, Sion (East), Mumbai 400 022, India Tel : Dir : (91 22) 5554 3535/36 Fax : (91 22) 5554 34 57 E-mail: dr.dogra@careratings.com website: care@careratings.com
		11	<b>Mr. Raman Uberoi</b> Senior Director-CRISIL Ratings	<b>CRISIL Limited</b> CRISIL House, 121/122, Andheri-Kurla Road, Andheri (East) Mumbai - 400093, INDIA Tel: (91 22) 5691 3001-09 / Fax: (91 22) 5691 3010 E-mail: ruberoi@crisil.com Website: www.crisil.com
		12	<b>Mr. Naresh Takkar</b> Managing Director & CEO	<b>ICRA Limited</b> (Associate of Moody's Investors Service) Building no. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002, New Delhi, India Tel: 00 91 124 4545320 (D), Fax: 00 91 124 4545350 E-mail: naresh@icraindia.com Website: www.icraindia.com
5	Indonesia	13	<b>Mr. Ronald T. Andi Kasim, CFA</b> President Director	<b>PT Pemeringkat Efek Indonesia (PEFINDO)</b> Panin Tower Senayan City, 17th Floor Jalan Asia Afrika Lot 19, Jakarta 10270 Tel: +62 21 727-82380; Fax: +62 21 72782370 E-mail: ronald.kasim@pefindo.co.id Website: www.pefindo.com
6	Japan	14	<b>Mr. Kazuo Imai</b> Advisor, Int'l. Business	<b>Japan Credit Rating Agency, Ltd.</b> Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo Japan 104-0061 Tel: (81 3) 3544-7024; Fax: (81 3) 3544-7028 E-mail: k-imai@jcra.com Website: www.jcra.com
7	Kazakhstan	15	<b>Mr. Beknur Imanaliyev</b> Chief Executive Officer	<b>Rating Agency of the Regional Financial Centre of Almaty City (RA-RFCA)</b> 050051, Avenue Dostyk 136, Almaty Republic of Kazakhstan Tel. +7 (727) 330-2301, 330-2302 Fax. +7 (727) 330-2303 E-mail: rating@rfca.kz_ Website: www.rfcaratings.kz
8	Korea	16	<b>Mr. Cho, Wangha</b> President/CEO	<b>Korea Investors Service</b> 55 <sup>th</sup> floor 63Bldg. 60 YoidoDong YoungdungpoGu Seoul 150-763 Korea Tel. 82-2-787-2305. 2335 Fax. 82-2-787-2309, 2361 E-mail: WangHa.Cho@kisrating.com Website: www.kisrating.com
		17	<b>Mr. Yoon, In-sub</b> President & CEO	<b>Korea Ratings Corporation</b> 26-4 Youido-Dong, Youngdeungpo-Gu, Seoul 150-737, Korea Tel: 82-2-786-3691, 368-5501 Fax: 82-2-368-5555 E-mail: davidyoon@korearatings.com Website: www.korearatings.com

		18	<b>Mr. Lee, Yong-Hi Ph.D.</b> CEO/Vice Chairman	<b>NICE Investors Service Co., Ltd.</b> NICE Bldg, 14-33, Yeouido-Dong, Yeongdeungpo-gu, Seoul 150-010, Korea Tel: 82-2-2014-6201, 6202 Fax: 82-2-2014-6313 E-mail: jhlee@nicerating.com Website: www.nicerating.com
		19	<b>Mr. Joo, Ikgong</b> Director-Credit Rating Division	<b>Seoul Credit Rating &amp; Information, Inc.</b> 5F, 281-1, Sangsu-dong, Mapo-gu, Seoul, 121- 828, Korea Tel: 82-17-782-6204 to 82-2-3449-1951 E-mail: ijoo@lycos.co.kr Website: www.scri.co.kr
9	Malaysia	20	<b>Mr. Razlan Mohamed</b> Chief Executive Officer	<b>Malaysian Rating Corporation Berhad</b> 5 <sup>th</sup> Floor, Bangunan Malaysian Re, 17 Lorong Dungun 50490 Kuala Lumpur, Malaysia Tel. # (603) 20925367; Fax # (603) 20933962 E-mail: razlan@marc.com.my Website: www.marc.com.my
		21	<b>Ms. Foo Su Yin</b> Deputy CEO	<b>RAM Rating Services Bhd</b> Suite 20, 01, Level 20, The Gardens South Tower Mid-Valley City, Lingkaran Syed Putra 59200 Kuala Lumpur, Malaysia Tel: (603) 7628 1000 / Fax (603) 7620 8252 E-mail: foosuyin@ram.com.my Website: www.ram.com.my
10	Pakistan	22	<b>Mr. Faheem Ahmad</b> President & CEO	<b>JCR-VIS Credit Rating Company Ltd.</b> VIS House, 128/C, Jami Commercial Street # 14 Phase VII, DHA, Karachi Tel: 92 21 35311861-72 ; Fax: + 92 21 35311873 E-mail: faheem@jcrvis.com.pk Website: www.jcrvis.com.pk
		23	<b>Mr. Adnan Afaq</b> Managing Director	<b>The Pakistan Credit Rating Agency Limited</b> Awami Complex, FB-1, Usman Block, New Garden Town Lahore-54600, Pakistan Tel: (9242) 586-9504; Fax: (9242) 583-0425 E-mail: adnan.afaq@pacra.com Website: www.pacra.com
11	Philippines	24	<b>Mr. Renato H. Peronilla</b> President	<b>Philippine Rating Services Corporation</b> 5 <sup>th</sup> Floor, Champaca Building, 162 Leviste Street Salcedo Village, Makati City, Philippines Tel: (632) 890-6996 Fax (632) 890-5273 E-mail: rhperon@yahoo.com Website: www.philratings.com
12	Sri Lanka	25	<b>Mr. Adrian D. Perera</b> Chief Executive Officer	<b>RAM Ratings (Lanka) Ltd.</b> No 9. Arthur's Place, Colombo 4, Sri Lanka Tel: +94 11 2553089 / Fax: +94 11 2553090 E-mail: adrian@ram.com.lk Website: www.ram.com.lk/
13	Taipei, China	26	<b>Mr. Hwa Ping Chang</b> CEO & President	<b>Taiwan Ratings Corp.</b> 49 <sup>th</sup> Floor, Taipei 101 Tower, No. 7, Xinyi Road Section 5, Taipei 110, Taiwan, R.O.C. Tel: (886 2) 8722-5800; Fax: (886 2) 8722-5869 E-mail: hwaping_chang@taiwanratings.com.tw Website: www.taiwanratings.com

14	Thailand	27	<b>Dr. Santi Kiranand</b> Chief Executive Officer	<b>TRIS Rating Co. Ltd.</b> Silom Complex Building, 24th Floor, 191 Silom Road Bangkok 10500, Thailand Tel: (662) 231-3011; DL 231-3034 Fax: (662) 231-3012 E-mail: santi@tris.co.th Website: www.tris.com.th
15	Uzbekistan	28	<b>Mr. Nail Azatovich Gaynullin</b> Deputy Director-General	<b>Ahbor Rating</b> Interbank Center for Financial Services 13 <sup>th</sup> Floor, 1, A, Khodjaeva Street, 700027 Tashkent, Uzbekistan Tel: (99871) 238-6919 / Fax: (99871) 238-6929 E-mail: info@ahbor.uz

# Acknowledgment

The printing of this publication was made possible by a grant from CIBI Foundation, Inc. of the Philippines.

CIBI Foundation, Inc. (originally Credit Information Bureau, Inc.) is a private non-stock not-for-profit corporation organized in April 1982 by the Central Bank of the Philippines, the Securities and Exchange Commission of the Philippines, and the Financial Executives Institute of the Philippines (FINEX), promoting capital market development through research, studies, forums, seminars, educational programs, advocacies and related activities.

In the beginning it operated as a credit information bureau, then expanded to providing credit rating services in 1985. These operating units were later spun off into two separate companies, CIBI Information, Inc. (the credit information bureau) and Philippine Rating Services Corporation or PhilRatings (the credit rating company), by which time Credit Information Bureau, Inc. was renamed CIBI Foundation, Inc. to act as a holding company.

Presently, the operating companies have two parent holding shareholder companies: Go Kim Pah Foundation, Inc. and CIBI Foundation, Inc.

The current Officers and Trustees of CIBI Foundation are:

Dr. Jaime C. Laya*	-	Chairman
Dr. Renato L. Paras*	-	Vice Chairman
Mr. Alfredo B. Parungao*	-	President
Ms. Carmelita G. Salgado*	-	Treasurer
Mr. Santiago F. Dumlao, Jr.*	-	Corporate Secretary
Mr. Eduardo R. Alvarez*	-	Trustee
Mr. Arsenio M. Bartolome III	-	Trustee
Mr. Roberto T. Borromeo	-	Trustee
Mr. Baltazar N. Endriga	-	Trustee
Mr. Eduardo V. Francisco	-	Trustee
Mr. Vitaliano N. Nañagas II	-	Trustee
Mr. Gregorio S. Navarro	-	Trustee
Dr. Cayetano W. Paderanga, Jr.	-	Trustee
Mr. Jesus J. Valdes	-	Trustee
Mr. Edwin B. Villanueva*	-	Trustee
Ms. Rosie E. Victoria	-	Asst. Corp. Secretary/Exec. Assistant

\*Member, Executive Committee