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For Immediate Release

PRESS RELEASE

IOSCO Issues Consultation Report on Code of Conduct Fundamentals for Credit Rating Agencies

The Chairmen's Task Force of the Technical Committee of the International Organization of Securities Commissions today is publishing for public consultation a Consultation Report on *Code of Conduct Fundamentals for Credit Rating Agencies*. The Consultation Report is now posted on the IOSCO website (www.iosco.org). The public is invited to submit comments on this Consultation Report by November 8, 2004. Instructions regarding the submission of comments are set out as an attachment to this Press Release.

In September 2003, the IOSCO Technical Committee issued a Statement of Principles Regarding the Activities of Credit Rating Agencies (CRAs). These CRA Principles laid out high-level objectives that CRAs, regulators, issuers and other market participants should strive toward in order to protect the integrity and analytical independence of the credit rating process. The Consultation Report follows on the CRA Principles by offering more specific and detailed guidance to CRAs on how the objectives of the CRA Principles can be achieved in practice.

The CRA Code of Conduct Fundamentals are designed to be a set of measures that should be included in some form or fashion in the codes of conduct of individual CRAs. As currently drafted, these measures are not intended to be rigid or formulaic: when incorporating these measures into their own codes of conduct, CRAs will be able to maintain a degree of flexibility to deal with the different legal and market circumstances in which they operate. However, it is envisioned that securities regulators may decide to incorporate the *CRA Code of Conduct Fundamentals* into their own regulatory oversight of CRAs, may decide to oversee compliance of the *CRA Code of Conduct Fundamentals* directly, may decide to provide for an outside arbitration body to enforce the *CRA Code of Conduct Fundamentals*, or may rely on market mechanisms to enforce compliance if an individual CRA's own code of conduct fails to adequately address the provisions outlined by the *CRA Code of Conduct Fundamentals*.

In developing the Consultation Report, the Chairmen's Task Force sought input from the CRA industry, the Basel Committee of Banking Supervisors, and the International Association of Insurance Supervisors. The Consultation Report will be revised and finalized after consideration of all comments received from the public. In seeking public comment, the Chairmen's Task

Force is particularly interested in views of how the provisions contained within the *CRA Code of Conduct Fundamentals* advance the goals of investor protection, fairness, efficiency and transparency in securities markets, and the reduction of systemic risk.

In addition to the Consultation Report itself, the Chairmen's Task Force also seeks public comment on two separate issues:

1. Whether it is advisable to require CRAs disclose to issuers beforehand changes to their rating methodologies and rating criteria and whether such a requirement would enhance or undermine investor protection. Such a provision might take the form of a revised Provision 3.9:

Because users of credit ratings rely on an existing awareness of CRA practices, procedures and processes, the CRA should fully and publicly disclose modification of these practices, procedures and processes prior to these modifications going into effect. The CRA should carefully consider the various uses of credit ratings before modifying its practices, procedures and processes. [Underlined language added.]

2. How compliance with the *CRA Code of Conduct Fundamentals* should be best enforced, given different legal and market circumstances in different jurisdictions. The current draft recognizes that different jurisdictions may adopt different mechanisms to help ensure compliance. Proposals within this framework include direct regulatory oversight, an outside arbitration body (such as the International Chamber of Commerce) that would determine whether a CRA is in compliance with the *CRA Code of Conduct Fundamentals*, as well as market mechanisms. The public is invited to opine on which of these approaches (as well as others) are better suited to achieving the objectives of protecting investors, maintaining fair, efficient and transparent markets, and reducing systemic risk.

After the consultation process, the Chairmen's Task Force will submit a final version of the CRA Code of Conduct Fundamentals to the IOSCO Technical Committee for approval.

A copy of the Technical Committee's September 2003 Statement of Principles Regarding the Activities of Credit Rating Agencies can be accessed on IOSCO's website at <http://www.iosco.org/pubdocs/pdf/IOSCOPD151.pdf>. The Technical Committee's Report on the Activities of Credit Rating Agencies, which accompanied the Statement of Principles, can be accessed at IOSCO's website at: <http://www.iosco.org/pubdocs/pdf/IOSCOPD153.pdf>.

For further information contact:

Mr. Philippe Richard
IOSCO Secretary General

or

Mr. Andrew Larcos
IOSCO Public Affairs officer

Tel: (3491) 417 55 49
Fax: (3491) 555 93 68

How to Submit Comments

Comments may be submitted by one of three methods. To help us process and review your comments more efficiently, please use only one method.

Important: All comments may be made available to the public.

1. E-mail

- Send comments to mail@oicv.iosco.org.
- The subject line of your message must indicate “Public Comment on *Code of Conduct Fundamentals for Credit Rating Agencies.*”
- If you attach a document, indicate the software used (e.g., WordPerfect, Microsoft WORD, ASCII text, etc.) to create the attachment.
- DO NOT submit attachments as HTML, PDF, GIF, TIFF, PIF, ZIP, or EXE files.

OR

2. Facsimile Transmission

Send by facsimile transmission using the following fax number: 34 (91) 555 93 68.

OR

3. Paper

Send 3 copies of your paper comment letter to:

Philippe Richard
IOSCO Secretary General
Oquendo 12
28006 Madrid
Spain

Your comment letter should indicate prominently that it is a “Public Comment on *Code of Conduct Fundamentals for Credit Rating Agencies.*”