

# **OTHER CRA PRODUCTS**

## **Final Report**



**IOSCO**

**The Board  
OF THE  
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS**

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## Foreword

The Board of the International Organization of Securities Commissions (“IOSCO”) has published this final report, *Other CRA Products* (the “Final Report” or “Report”), prepared by IOSCO Committee 6 on Credit Rating Agencies (“Committee 6”). The purpose of this Final Report is to report on Committee 6 members’ understanding of products and services provided by credit rating agencies that are different from commonly identified issuer-paid or subscriber-paid credit ratings but that may be used by market participants in making investment and other credit-related decisions (similar to how commonly identified credit ratings are used). These products and services may be used by issuers and obligors to make decisions about whether to obtain a credit rating from a particular credit rating agency.

# Other CRA Products – Final Report

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## Chapter 1 - Executive Summary

The IOSCO Board approved a project specification for Committee 6 on Credit Rating Agencies to gain a better understanding of the credit rating industry and, in particular, certain non-traditional, credit-related products and services. These other products and services are distinguishable from traditional assessments of the creditworthiness of an entity or obligation, expressed using an established and defined rating scale and symbology, that are publicly disclosed or disseminated to subscribers<sup>1</sup> (“Traditional Credit Ratings”). Examples include the following: “private ratings”, “confidential ratings”, “expected ratings”, “indicative ratings”, “prospective ratings”, “provisional ratings”, “preliminary ratings”, “one-time ratings”, “regional scale ratings”, “national scale ratings”, “point-in-time ratings”, “scores”, “credit default swap spreads”, “bond indices”, “portfolio assessment tools”, “credit assessments”, “rating assessments”, “evaluations”, “fund ratings”, “data feeds”, “research” and other tools. For purposes of this Report, these products and services and others discussed in this Report will be referred to, collectively, as “Other CRA Products” or “OCP”.

Market participants may use Other CRA Products for the following purposes: to assess the creditworthiness of an entity or obligation in addition to or instead of relying on Traditional Credit Ratings; to understand the impact that a hypothetical or proposed transaction would have on a Traditional Credit Rating; to understand how a credit rating agency would ultimately rate a new issuance; and as part of conducting risk assessments. To gain a better understanding of Other CRA Products, Committee 6 consulted market participants through a series of two questionnaires and organized multiple panel discussions with credit rating agencies, users of Other CRA Products and other market participants.

The goal of the first questionnaire, published by IOSCO on February 4, 2015<sup>2</sup> (the “First Questionnaire”), was to gain a better understanding of Other CRA Products and how they differ from Traditional Credit Ratings. The scope of the First Questionnaire was intentionally broad given the range of OCP that credit rating agencies offer. The First Questionnaire was addressed to credit rating agencies and to their affiliates, partnerships, joint ventures and other business combinations, whether or not these affiliates and other entities and associations are directly or indirectly involved in developing Traditional Credit Ratings and whether or not they are regulated in the jurisdictions where they conduct business (collectively, “CRAs” and individually, a “CRA”).<sup>3</sup>

The second questionnaire, published by IOSCO on June 30, 2015<sup>4</sup> (the “Second Questionnaire”, and together with the First Questionnaire, the “Questionnaires”), was addressed to issuers, investors and users, more generally, of Other CRA Products. The purpose

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<sup>1</sup> Under the IOSCO Technical Committee, Code of Conduct Fundamentals for Credit Rating Agencies (rev. March 2015), (“Code of Conduct”, available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD482.pdf>), a “credit rating” is defined as an “assessment regarding the creditworthiness of an entity or obligation, expressed using an established and defined ranking system”.

<sup>2</sup> See <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD471.pdf>.

<sup>3</sup> Please note that the Code of Conduct defines a credit rating agency as “an entity that is in the business of issuing credit ratings”.

<sup>4</sup> See <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD492.pdf>.

of the Second Questionnaire was to learn from this group how they utilize and understand Other CRA Products.

After reviewing the responses to the Questionnaires and conducting additional consultations with several respondents, Committee 6 identified certain common traits among the Other CRA Products. Prior to publishing this Final Report, Committee 6 invited the larger CRAs to address additional questions<sup>5</sup> specifically relating to the common traits that Committee 6 had identified. In November 2016, IOSCO published a consultation report (“Consultation Report”) with two goals in mind: 1) to further clarify information provided by respondents to the Questionnaires; and 2) to report on Committee 6 members’ understanding, as of that date, of Other CRA Products.<sup>6</sup>

Generally speaking, the work conducted by Committee 6 resulted in three main observations:

(1) Some OCP share similar processes and features as Traditional Credit Ratings: CRAs develop a number of OCP using the same credit rating analysts who determine Traditional Credit Ratings. CRAs may also apply methodologies and follow similar rating processes, for example, using rating committees, to determine OCP. The OCP may be subject to similar regulatory and compliance-driven policies and procedures as Traditional Credit Ratings and may be expressed by CRAs and identified by the market using similar symbology, scales and definitions as Traditional Credit Ratings. These OCP may or may not be described by CRAs as a type of credit rating and CRAs whose activities are subject to the supervision, oversight and/or authorization by or registration with regulatory or other government authorities (“Regulated CRAs”) that offer them may not treat them as credit ratings subject to the same regulatory oversight as Traditional Credit Ratings.

(2) CRAs tend to create separate structures or business line organizations: Some CRAs have organized themselves according to a bifurcated legal and/or corporate structure. On one side, CRAs have indicated that they aim to separate all the activities that are subject to regulation, including Traditional Credit Ratings, within regulated entities or business units. On the other side, CRAs aim to manage and separately organize a number of related activities within affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs’ parent companies not subject to CRA regulations, while sharing with the Regulated CRA several elements of the brand, name and/or website.

(3) Common features can be identified among Other CRA Products and these products, for purposes of this Report, can be categorized into six primary groups: Similar to Traditional Credit Ratings, Other CRA Products may be used by market participants as part of the process of assessing the creditworthiness of an entity or obligation, while some Other CRA Products may be used by market participants as part of their internal risk assessment analysis. However, some Other CRA Products differ from Traditional Credit Ratings in that they may emphasize only one aspect of a Traditional Credit Rating; for example, Other CRA Products may focus only on quantitative analysis or qualitative considerations, as compared with a Traditional Credit Rating which is typically understood to reflect both quantitative and qualitative analysis.

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<sup>5</sup> See Appendix, attached hereto.

<sup>6</sup> See IOSCO Board, Consultation Report on Other CRA Products, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD547.pdf>

Market participants may use Other CRA Products to understand the impact that a hypothetical or proposed transaction would have on an existing Traditional Credit Rating or to understand how a CRA would ultimately rate a new issuance of securities.

Committee 6 notes that the descriptions of the Other CRA Products in this Final Report are intended to capture and represent the current state of Other CRA Products, business practices and trends within the CRA industry. They are not intended to describe Other CRA Products issued by any specific CRA.<sup>7</sup> The descriptions also may not reflect how individual regulators or policymakers treat Other CRA Products, as Committee 6 did not analyze the statutory requirements of individual jurisdictions.

For purposes of this Final Report, the general descriptions of the six groups of Other CRA Products discussed in this Report are as follows:

1. **OCP - Research:** These are products and services offered by CRAs which:
  - contain information or opinions about a financial instrument, an issuer of financial instruments, or an industry sector;
  - are disseminated to users through a website and/or a subscription service; and
  - do not assess issuers of financial instruments or the relevant financial instruments using an established or defined ranking system of rating categories.
2. **Private - OCP:** These are products and services offered by CRAs and described as Traditional Credit Ratings with the exception that Private - OCP are generally made available only to a restricted and controlled number of recipients.
3. **Non-Final OCP:** These are products and services offered by CRAs which:
  - provide a preliminary or initial assessment of the creditworthiness of an entity or obligation in respect of an existing, proposed or hypothetical financial instrument;
  - are assessments that are preliminary or initial because either the information available to the CRA is not complete or because the issuer or arranger has not requested the CRA to issue a complete or final Traditional Credit Rating;
  - typically use the same established and defined rating symbology as it would for a final Traditional Credit Rating (although a CRA may use a prefix or suffix to denote that the assessment differs from a Traditional Credit Rating); and
  - provide a preliminary or initial assessment that is not a final Traditional Credit Rating, but may be converted into (or replaced with) a final Traditional Credit Rating if certain conditions are met.
4. **OCP - Part of the Rating Process:** These are products and services offered by CRAs:
  - to provide an assessment of a party or function that plays a key role affecting the performance and credit quality of a rated financial instrument (for example, assessing the quality of an originator or a servicer as part of determining a rating on a structured

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<sup>7</sup> As numerous respondents to the Consultation Report requested confidential treatment of their responses, Committee 6 did not include in this Final Report Other CRA Products that are unique to one specific CRA and that were mentioned in the confidential responses.

finance instrument), or to assess or monitor the performance of certain assets constituting the collateral of a rated financial instrument;

- to be used as an input in the process of determining a Traditional Credit Rating;
- that can be used to provide additional information to users of Traditional Credit Ratings on a discrete aspect of a rated transaction or issuer; and
- that usually do not convert into a Traditional Credit Rating.

5. **OCP - Outside the Rating Process:** These are products and services offered by CRAs in which the CRA provides information or assessments on the following: (i) issuers and their financial instruments; (ii) sectors of the financial industry; and (iii) market participants in general.
6. **OCP - Hybrids:** These are products and services offered by CRAs which have several features that are similar to Traditional Credit Ratings. An OCP - Hybrid does not assess the creditworthiness of an obligation or the ability of the issuer to repay its debt. OCP - Hybrids, instead, are issued on financial instruments that represent ownership interests in certain entities.

With regard to the second observation above on business and corporate structure, as a general matter, Committee 6 received responses to the First Questionnaire primarily from Regulated CRAs.<sup>8</sup> Further, some respondents to the Consultation Report requested that the scope of the Final Report focus solely on Regulated CRAs.

Committee 6 believes that, consistent with its mission, the scope of the Final Report should remain broad and principles based and should not be limited to Regulated CRAs for the following reasons:

- 1) Committee 6 is responsible for discussing, evaluating and considering regulatory and policy initiatives vis-à-vis credit rating agencies' activities and oversight, in an effort to seek cross-border regulatory consensus and facilitating regular dialogue between securities regulators and the credit rating industry;
- 2) a regulatory definition of "credit rating agency" would likely vary among jurisdictions globally and may not accurately reflect the full scope of credit rating agencies' current and evolving products and services;
- 3) in conducting its review, Committee 6 recognized that CRAs organize themselves in different ways, as they deem appropriate and most efficient to conduct their business; and
- 4) Committee 6 continues to remain focused on the substance of the activities conducted by CRAs to promote three core objectives identified by IOSCO: the protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systemic risk.<sup>9</sup>

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<sup>8</sup> Committee 6 also received responses to the First Questionnaire from other market participants, including organizations that issue Other CRA Products but which are not involved in the business of issuing Traditional Credit Ratings, industry associations and asset managers.

<sup>9</sup> See IOSCO Board, Objectives and Principles of Securities Regulation (May 2017), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf>.



The bifurcated legal and corporate structure discussed in the second observation above provides CRAs with certain options, in particular: 1) the affiliates, divisions and business combinations of the Regulated CRAs and of the Regulated CRAs' parent companies not subject to CRA regulations may be able to benefit from the vast amount of information and data received and developed by the Regulated CRAs to generate alternative unregulated products that can complement (or sometimes even compete against) Traditional Credit Ratings; and 2) similarly, the affiliates, divisions and business combinations of the Regulated CRAs and of the Regulated CRAs' parent companies not subject to CRA regulations may be able to benefit from the brand and reputation developed through the Regulated CRAs' work product and activities in their efforts to commercialize unregulated products.

A number of respondents to the Consultation Report raised concerns with respect to this second observation, stating that CRAs have already put in place measures to separate the activities of the Regulated CRAs from the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs' parent companies not subject to CRA regulations.

For example, some larger CRAs responded that they have policies which require physical, legal and operational separation between the two sides and such policies restrict the transfer of certain types of information between the Regulated CRA and other business units or entities. One larger CRA noted that the CRA's internal control functions are periodically tested to ensure that the separation policies are being observed.

Another larger CRA stated that the relevant corporate and operational aspects of the separation between the Regulated CRA's business and other businesses not subject to CRA regulation were established for that larger CRA over many years, often pre-dating local CRA regulation.

Committee 6 takes positive note that CRAs indicated that separation policies exist, however, Committee 6 observed in its discussions with users of Other CRA Products that the separation is often not fully appreciated. The separation as described above by the CRAs is between the Regulated CRAs and the affiliates, divisions or business combinations of the Regulated CRAs and of the Regulated CRAs' parent companies not subject to CRA regulation. The frequent perception of the users of Other CRA Products is that they are conducting business with the Regulated CRAs, irrespective of which entity issues the Other CRA Product.

Committee 6 notes that the IOSCO Statement of Principles Regarding the Activities of Credit Rating Agencies (the "IOSCO CRA Principles")<sup>10</sup> were developed to apply to all the activities undertaken by credit rating agencies as they operated at that time, and that some of the principles explicitly refer only to Traditional Credit Ratings. However, Committee 6 also notes that the IOSCO CRA Principles were issued in 2003 and, as evidenced by this Report, the credit rating agency industry has since evolved beyond the core activity originally occupied by Traditional Credit Ratings.

The purpose of the IOSCO CRA Principles was and remains to set "high-level objectives that CRAs, regulators, rated entities, obligors, underwriters, arrangers, and other market participants should strive toward in order to improve investor protection and the fairness, efficiency and transparency of securities markets, and reduce systemic risk. The [IOSCO CRA] Principles apply to all types of CRAs operating in various jurisdictions. However, to take into

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<sup>10</sup> See IOSCO Technical Committee, Statement of Principles Regarding the Activities of Credit Rating Agencies (Sept. 2003), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD151.pdf>.

account the different market, legal, and regulatory circumstances in which CRAs operate, and the varying size and business models of CRAs, the manner in which the [IOSCO CRA] Principles were to be implemented was left open. The [IOSCO CRA] Principles contemplated that a variety of mechanisms could be used, including both market mechanisms and regulation.”<sup>11</sup>

While CRAs have organized themselves according to legal and/or corporate structures that they consider to be optimal for their business, Committee 6 believes that all of the activities of CRAs that result in a Traditional Credit Rating or Other CRA Product should be responsive to the spirit of the four high level objectives set forth in the IOSCO CRA Principles.<sup>12</sup> Committee 6 also observed that the legal and/ or corporate organizational structures chosen by CRAs to engage in an activity or offer a service or product are not indicative of whether such activity, service or product is subject to the Code of Conduct.

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<sup>11</sup> See Code of Conduct, pages A-2 and A-3.

<sup>12</sup> See IOSCO Technical Committee, Statement of Principles Regarding the Activities of Credit Rating Agencies (Sept. 2003), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD151.pdf>.

## Chapter 2 - Introduction

The IOSCO CRA Principles, published in 2003, address four key areas with the objective to promote informed, independent analysis and opinions by credit rating agencies: the quality and integrity of the rating process; independence and conflicts of interest; the transparency and timeliness of ratings disclosure; and confidential information.

Following publication of the IOSCO CRA Principles, some commenters, including a number of credit rating agencies, suggested that it would be useful if IOSCO were to develop a more specific and detailed code of conduct to provide guidance on how the IOSCO CRA Principles could be implemented in practice. IOSCO responded in 2004 with the publication of the first iteration of the Code of Conduct.<sup>13</sup> The Code was intended to advance the goals of investor protection, fairness, efficiency, and transparency in securities markets, and the reduction of systemic risk.

In the wake of the 2008 financial crisis, the IOSCO Chairman's Task Force on Credit Rating Agencies (the "CRA Task Force") undertook a study of the role of credit rating agencies in the structured finance market. The study was subsequently released in a report.<sup>14</sup> That report included recommendations to revise the Code of Conduct, which the Technical Committee adopted, modifying the Code of Conduct concurrently with the publication of that report. Based on the recommendations, an updated version of the Code of Conduct was published in May 2008 (the "2008 Code").<sup>15</sup>

In 2009, the CRA Task Force completed a review of the level of credit rating agencies' implementation of the 2008 Code and, in particular, the 2008 revisions.<sup>16</sup> The results of the review showed that only a handful of the credit rating agencies reviewed had not implemented the 2008 Code in a meaningful way.

In May 2009, IOSCO converted the CRA Task Force into a permanent committee on credit rating agencies - Committee 6 - with a mandate to:

- regularly discuss, evaluate, and consider regulatory and policy initiatives vis-à-vis credit rating agencies' activities and oversight in an effort to seek cross border regulatory consensus through such means as the Code of Conduct; and
- facilitate regular dialogue between securities regulators and the credit rating industry.

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<sup>13</sup> See IOSCO Technical Committee, Code of Conduct Fundamentals for Credit Rating Agencies (December 2004), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD180.pdf>.

<sup>14</sup> See IOSCO Technical Committee, The Role of Credit Rating Agencies in Structured Finance Markets (May 2008), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD270.pdf>.

<sup>15</sup> See IOSCO Technical Committee, Code of Conduct Fundamentals for Credit Rating Agencies (May 2008), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD271.pdf>.

<sup>16</sup> See IOSCO Technical Committee, A Review of Implementation of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (Mar. 2009), available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD286.pdf>.

In 2012, IOSCO published a survey report prepared by Committee 6, which provides a comprehensive description of the key risk controls established by credit rating agencies to promote the integrity of the credit rating process and the procedures established to manage conflicts of interest.<sup>17</sup>

In July 2013, IOSCO published a final report recommending the creation of supervisory colleges for certain globally active credit rating agencies.<sup>18</sup> The colleges were formed later that year: the U.S. Securities and Exchange Commission is the chair of the colleges for S&P Global Ratings and Moody's Investors Service and the European Securities and Markets Authority is the chair of the college for Fitch Ratings. IOSCO expects that these supervisory colleges will operate as a forum for regulators to exchange information about these internationally active credit rating agencies.

Committee 6 completed a third revision of the Code of Conduct in March 2015.<sup>19</sup> The revisions took into account the fact that credit rating agencies are now supervised by regional and national authorities and resulted in an updated Code that is intended to work in harmony with credit rating agencies' registration and oversight programs. The Code of Conduct is the international standard for credit rating agencies' self-governance<sup>20</sup>.

As described in this brief historical overview of the work of IOSCO on credit rating agencies, since 2003 the work undertaken by Committee 6 (and its predecessor, the CRA Task Force) has focused primarily on three aspects of the credit rating agency industry: Traditional Credit Ratings; the policies, procedures and processes surrounding the determination and issuance of Traditional Credit Ratings; and the operating environment in which Traditional Credit Ratings are issued.

Credit rating agency registration and oversight programs are now in effect in a number of jurisdictions including, among others, Argentina, Australia, Brazil, Canada, the European Union, Hong Kong, India, Israel, Japan, Mexico, Pakistan, Russia, Saudi Arabia, Singapore, South Africa, Taiwan and the United States. In this regard, Committee 6 noted in a report published in 2011 that, with regard to oversight regimes in effect at the time of this report, "although the structure and specific provisions of CRA regulatory programs may differ, the objectives of the four IOSCO CRA Principles are embedded into each of the programs" and that "the principles appear to be the building blocks upon which CRA regulatory programs have been constructed".<sup>21</sup>

The credit rating agency industry has evolved in recent years beyond offering Traditional Credit Ratings. Today, the suite of products and services that CRAs offer include a broad array

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<sup>17</sup> See IOSCO Board, *Credit Rating Agencies: Internal Controls Designed to Ensure the Integrity of the Credit Rating Process and Procedures to Manage Conflicts of Interest* (Dec. 2012), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD398.pdf>.

<sup>18</sup> See <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD416.pdf>.

<sup>19</sup> See IOSCO Technical Committee, *Code of Conduct Fundamentals for Credit Rating Agencies* (rev. March 2015), available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD482.pdf>

<sup>20</sup> However, it is worth noting that the preamble to the Code of Conduct provides that laws and regulations in jurisdictions in which a CRA operates take precedence over the Code of Conduct.

<sup>21</sup> See IOSCO Technical Committee, *Regulatory Implementation of the Statement of Principles Regarding the Activities of Credit Rating Agencies* (Feb. 2011), available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD346.pdf>

of credit and risk assessment tools and information, typically offered under one brand name. While many Other CRA Products are offered through the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs' parent companies not subject to CRA regulations, they benefit from the name recognition of the particular Regulated CRAs.

During the consultations for the 2015 revisions to the Code of Conduct, Committee 6 members were presented with the broad variety and nuances of Other CRA Products. Questions were raised during those consultations as to whether "private" or "confidential" ratings, "preliminary" or "indicative" ratings, or "credit assessments", to name a few, are subject to the Code of Conduct. Essentially, while the terminology used by one CRA to describe its Other CRA Products was similar to the terminology used by another CRA to describe its Other CRA Products, the substance of and terms of use of the Other CRA Products differed. In response, in December 2014, the IOSCO Board considered the project specification for Committee 6 to gain a better understanding of Other CRA Products and this project commenced.

The purpose of this Final Report is to report on Committee 6 members' understanding of products and services provided by CRAs that are different from commonly identified issuer-paid or subscriber-paid Traditional Credit Ratings but that may be used by market participants in making investment and other credit-related decisions (similar to how Traditional Credit Ratings are used) and may be used by issuers and obligors to make decisions about whether to obtain a Traditional Credit Rating from a particular CRA.

The remaining portions of this Report cover the following topics:

**Chapter 3** will provide a brief description of the methodology followed by Committee 6 in gathering, organizing and analyzing the information collected in connection with Other CRA Products and underlying this Final Report.

**Chapter 4** will provide a more detailed analysis of each of the six categories of Other CRA Products identified by Committee 6.

Finally, while Committee 6 cannot publish the responses to the Questionnaires, as the majority of respondents requested that their responses be treated confidentially, the Questionnaires that were published and used by Committee 6 to gather the information that forms the basis for this Final Report can be found online at:

<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD471.pdf> and at:

<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD492.pdf>. A set of additional questions that Committee 6 posed to certain CRAs in discussions held in April 2016 was included in Appendix III to the Consultation Report. Descriptions of certain terms used in this Final Report, created only for purposes of this Final Report and for ease of reference when reading this Final Report have been included in an **Appendix** attached to this Final Report.

## Chapter 3 - Methodology

Committee 6 undertook the analysis of Other CRA Products through the completion of successive stages of information gathering. The completion of each stage informed the scope and structure of the following stage until Committee 6 gathered the information required to produce this Final Report.

### First Questionnaire<sup>22</sup>

The First Questionnaire was addressed primarily to credit rating agencies and to their affiliates, partnerships, joint ventures and other business combinations. The goal of the First Questionnaire was to gain a better understanding of Other CRA Products and how they differ from Traditional Credit Ratings. In the First Questionnaire, IOSCO requested that CRAs describe their Other CRA Products by answering a series of questions for each OCP on the following topics: the use of the OCP; the profile of users of the OCP; whether the OCP is distributed publicly or privately; whether CRAs disclose how the OCP is different from a Traditional Credit Rating; how and from what location/offices the OCP is disseminated; the name of the CRA that issues the OCP and information about the fees charged by the CRA; what analytical and commercial processes are followed in developing and selling the OCP; what analytical resources are utilized in developing the OCP; and whether the OCP is expressed using a national, regional or global alpha-numeric or other standardized scale. Questions also covered contractual provisions governing the OCP and whether the OCP is subject to regulatory oversight.

CRAs were asked to provide information on the type of analysis undertaken to generate each OCP, including an explanation of the models used, whether surveillance is conducted and information on the skills, experience and qualifications of the analysts who develop each OCP. CRAs were also asked whether confidential and/or public information was used in connection with developing each OCP.

Finally, the First Questionnaire solicited information about the commercial short- and long-term strategy for each OCP, the competitive landscape and the marketing and sales methods, namely, whether CRAs market and sell each OCP independently of or in conjunction with Traditional Credit Ratings. CRAs were asked about the importance of each OCP to their business and to identify what they anticipate to be the biggest growth areas within the OCP sector in the near- and long-term.

The First Questionnaire and the discussions with relevant respondents held by Committee 6 members following publication of the First Questionnaire, resulted in responses from and interviews with 23 respondents from 11 different jurisdictions and in gathering information on more than 100 Other CRA Products.

The First Questionnaire was followed by conference calls between Committee 6 members and the First Questionnaire respondents and by panel discussions with four organizations that issue Other CRA Products.

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<sup>22</sup> The goal of the First Questionnaire, the process that was followed, the details about the respondents and the subsequent actions that Committee 6 conducted are described in Chapter 1 of this Report.

## Second Questionnaire<sup>23</sup>

The Second Questionnaire was addressed primarily to issuers, investors and users, more generally, of Other CRA Products. The goal of the Second Questionnaire was to learn how the Other CRA Products are used and understood by their users. In the Second Questionnaire, IOSCO requested respondents<sup>24</sup> to list the Other CRA Products that they use and to answer the following questions: disclose which specific function, area or group within the organization uses Other CRA Products; describe the main features of the Other CRA Products, as respondents understand them, and how the Other CRA Products are used within the organization, including whether they are used in combination with, instead of, or to supplement or test the performance or accuracy of Traditional Credit Ratings; and whether Other CRA Products are custom made for respondents.

The Second Questionnaire was followed by conference calls with several respondents and by panel discussions with five organizations that use Other CRA Products.

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As noted in Chapter 1 of this Report, after reviewing and analyzing responses to each Questionnaire, Committee 6 members conducted calls, as needed, with the respondents to obtain clarifications and any missing information. Users of Other CRA Products and CRAs also answered additional questions during subsequent panel discussions.

As Committee 6 observed with regard to the First Questionnaire, Committee 6 received responses to the Second Questionnaire that were generally limited to information about Other CRA Products developed primarily by Regulated CRAs. Information and discussions were also limited with regard to the sales and marketing methods and the fee structure for Other CRA Products.

This Final Report was preceded by the Consultation Report. In the Consultation Report, Committee 6 generally asked interested persons whether the descriptions of the Other CRA Products identified in the six groups and analyzed in Chapter 4 of this Final Report were generally consistent with interested persons' knowledge and use of Other CRA Products and interested persons' understanding of the CRA industry. Committee 6 also asked interested persons whether the Other CRA Products are covered by the Code of Conduct and IOSCO CRA Principles and whether interested persons apply both documents to the Other CRA Products. In response to the Consultation Report, IOSCO received 9 comment letters, which Committee 6 reviewed in preparing this Final Report.

In drafting this Final Report, Committee 6 did not analyze the statutory or regulatory requirements of individual jurisdictions. This Final Report is based on and summarizes the factual information collected by Committee 6 in the course of its work on Other CRA Products and it is not intended to provide an interpretation of the Code of Conduct.

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<sup>23</sup> The goal of the Second Questionnaire, the process that was followed, the details about the respondents and the subsequent actions that Committee 6 conducted are described in Chapter 1 of this Report.

<sup>24</sup> IOSCO received 40 responses from organizations located in 6 different jurisdictions.

Based on the information collected, Committee 6 determined that, for the purposes of this Final Report, the Other CRA Products offered by CRAs can best be organized in the six categories described in Chapter 1 of this Report: (1) OCP - Research; (2) Private - OCP; (3) Non-Final OCP; (4) OCP - Part of the Rating Process; (5) OCP - Outside the Rating Process; and (6) OCP - Hybrids.

Committee 6 identified and catalogued the key features of each of the Other CRA Products based on responses to the First Questionnaire, and confirmed them following the analysis of responses to the Second Questionnaire and subsequent discussions. Each of the Other CRA Products was allocated to one of the six categories. Further review of the features of each of the Other CRA Products confirmed certain common characteristics and trends within each group. Products in each of the six groups and their characteristics are discussed in Chapter 4 of this Report.



## Chapter 4 - Descriptions of Other Credit Rating Agency Products

As described in Chapter 1 of this Report and repeated here for ease of reference, the general descriptions of the six groups of Other CRA Products discussed in this Final Report are as follows:

1. **OCP - Research:** These are products and services offered by CRAs which:
  - contain information or opinions about a financial instrument, an issuer of financial instruments, or an industry sector;
  - are disseminated to users through a website and/or a subscription service; and
  - do not assess issuers of financial instruments or the relevant financial instruments using an established or defined ranking system of rating categories.
2. **Private - OCP:** These are products and services offered by CRAs and described as Traditional Credit Ratings with the exception that Private - OCP are typically made available only to a restricted and controlled number of recipients.
3. **Non-Final OCP:** These are products and services offered by CRAs which:
  - provide a preliminary or initial assessment of the creditworthiness of an entity or obligation in respect of an existing, proposed or hypothetical financial instrument;
  - are assessments that are preliminary or initial because either the information available to the CRA is not complete or because the issuer or arranger has not requested the CRA to issue a complete or final Traditional Credit Rating;
  - typically use the same established and defined rating symbology as it would for a final Traditional Credit Rating (although a CRA may use a prefix or suffix to denote that the assessment differs from a Traditional Credit Rating); and
  - provide a preliminary or initial assessment that is not a final Traditional Credit Rating, but may be converted into (or replaced with) a final Traditional Credit Rating if certain conditions are met.
4. **OCP - Part of the Rating Process:** These are products and services offered by CRAs:
  - to provide an assessment of a party or function that plays a key role affecting the performance and credit quality of a rated financial instrument (for example, assessing the quality of an originator or a servicer as part of determining a rating on a structured finance instrument), or to assess or monitor the performance of certain assets constituting the collateral of a rated financial instrument;
  - to be used as an input in the process of determining a Traditional Credit Rating;
  - that can be used to provide additional information to users of Traditional Credit Ratings on a discrete aspect of a rated transaction or issuer; and
  - that usually do not convert into a Traditional Credit Rating.
5. **OCP - Outside the Rating Process:** These are products and services offered by CRAs in which the CRA provides information or assessments on the following: (i) issuers and their

financial instruments; (ii) sectors of the financial industry; and (iii) market participants in general.

6. **OCP - Hybrids:** These are products and services offered by CRAs which have several features that are similar to Traditional Credit Ratings. An OCP - Hybrid does not assess the creditworthiness of an obligation or the ability of the issuer to repay its debt. OCP - Hybrids, instead, are issued on financial instruments that represent ownership interests in certain entities.

#### 4.1 OCP - Research: Overview

In this Final Report, “OCP - Research” refers to a product or service offered by a CRA, which:

- contains information or opinions about a financial instrument, an issuer of financial instruments, or an industry sector;
- is disseminated to users through a website and/or a subscription service; and
- does not assess issuers of financial instruments or the relevant financial instruments using an established or defined ranking system of rating categories.

Larger CRAs and most smaller CRAs offer OCP - Research. However, CRAs refer to such products or services by different names. Examples include the following: “research”, “pre-sale reports”, “reports”, “commentaries”, “press releases”, “issuer reviews”, “industry outlooks”, “sector overviews”, “sector outlooks”, “trend analyses”, and “projections”.

Many CRAs offer OCP - Research that typically has the following key features:

- the majority of the OCP - Research published by larger CRAs is not available free of charge;<sup>25 26</sup>
- OCP - Research is used to identify investment opportunities, to manage enterprise risk, to predict future rating actions, or to monitor the performance of financial instruments;
- most larger CRAs commercialize OCP - Research through one of the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs’ parent companies not subject to CRA regulations. According to the CRAs, the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs’ parent companies not subject to CRA regulations also publish OCP - Research without the involvement of the CRAs’ credit rating analysts and without the use of information segregated within the Regulated CRA;
- larger CRAs publish OCP - Research related to Traditional Credit Ratings;
- larger CRAs have confirmed that OCP - Research published by the CRA is prepared predominantly, but not exclusively, by their credit rating analysts;

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<sup>25</sup> For a larger and a smaller CRA, the majority of the published research is available free of charge. For some other smaller CRAs, as research is a part of their core business, access to their research is predominantly available for a fee. Some larger CRAs and a smaller CRA allow users to purchase OCP - Research on a standalone basis.

<sup>26</sup> It has not been possible to obtain from the CRAs precise estimates of the revenues generated from the sale of OCP - Research. Generally, the larger CRAs state that the revenue generated from the sale of OCP - Research is marginal and that OCP - Research is produced to raise the profile of the CRA, rather than to generate a substantial amount of revenue.

- OCP - Research published by CRAs typically contains contact details of a responsible person within the CRA; and
- Some larger CRAs are of the opinion that OCP - Research is not covered by rules and regulations affecting CRAs.

OCP - Research is typically used for one of the following five purposes:

1. **Announcing a rating action:** CRAs use one type of OCP - Research (i.e., press releases) to inform the public and subscribers that they have issued an initial Traditional Credit Rating or have taken a rating action on an existing Traditional Credit Rating.
2. **Informing decisions:** Some users rely in part on OCP - Research for identifying investment opportunities and making investment decisions. A large asset manager stated that it uses OCP - Research to run a preliminary screen of financial instruments that can be included in an end investor's portfolio. One bank stated that it uses OCP - Research to estimate what the Traditional Credit Ratings might be of unrated issuers or of rated issuers that are considering mergers or acquisitions. One smaller CRA advised that its OCP - Research is used by market participants to inform their strategic corporate decisions and by regulators to support prudential capital determinations and policy decisions.
3. **Risk management:** Some users rely on OCP - Research as a risk management tool to analyze, monitor and manage risk. One bank stated that it uses OCP - Research to complement its internal credit rating assessments of banks, companies, bonds and sovereigns.
4. **Predicting future rating changes:** OCP - Research is also used to enhance the understanding of users of Traditional Credit Ratings of the research, analysis and rating methodologies that underpin the relevant Traditional Credit Rating. Some OCP - Research is used to better understand CRAs' views on economic, regulatory and financial sector developments and to provide an indication of expected credit trends for a particular sector. One large bank responded that it is in constant dialogue with the CRAs to understand their views, their rating methodology and potential changes to the rating methodology. Industry outlooks provided by CRAs are seen to provide an indication of expected credit ratings trends for a particular sector.
5. **Monitoring performance of assets backing securitizations:** OCP - Research published on asset-backed securitizations and collateralized loan obligations contains information such as historical performance data and qualitative studies which can be used to monitor the securitization sector and the performance of assets backing securitizations.

#### 4.1.1 Types of OCP - Research

Certain CRAs offer two different types of OCP - Research distinguished on the basis of whether: 1) the OCP - Research is related to a Traditional Credit Rating such as research publications containing the rationale for a rating action and information presented to credit rating committees that supports a rating action; or 2) any other OCP - Research published by a CRA. The CRAs surveyed and interviewed in connection with this Final Report did not

provide a clear description of the decision- making process that supports the determination to publish, or not to publish, OCP - Research.

Some larger CRAs advised that in publishing OCP - Research, they follow policies and procedures which are similar to, but generally simpler than, those followed in connection with the issuance of a Traditional Credit Rating.<sup>27</sup> Based on the surveys and interviews conducted in connection with this Final Report, Committee 6 concluded that there is generally no industry standard for how OCP - Research is initiated, developed, quality-controlled, approved and monitored. Each CRA developed practices that address the process for publishing OCP - Research, however, these practices do not appear to be formalized in such a way that they can be documented in an open and verifiable manner or through robust and repeatable processes.

#### **4.1.1.1 OCP - Research Related to a Traditional Credit Rating**

The first type of OCP - Research is directly related to the publication of a Traditional Credit Rating or to the publication of a rating action on an existing Traditional Credit Rating, as it contains the rationale for and information that supports a published rating action. Depending on the timing of the publication of the Traditional Credit Rating, some further distinctions can be drawn:

##### **A) Press Releases:**

When CRAs issue an initial Traditional Credit Rating or take a rating action on an existing Traditional Credit Rating, all CRAs publish an announcement (typically in the form of a press release), publicly available at no cost or made available to paying subscribers.

Larger CRAs require registration before a user can search for and read a press release related to a rated entity or rated issue or the relevant announcements on the CRA's website. While the user agreements vary in detail, certain characteristics of these agreements are consistent among larger CRAs, in particular: first, registration requires the user to provide a wide range of personal data including full name, contact details, job title, professional contact details, and to accept that this information is transmitted to affiliates and non-affiliated third parties of the CRA and used for various commercial purposes; and second, the user is required to accept an agreement which prohibits internal business use of any information found on the CRA's website without a separate licensing agreement with the CRA. It is specified in all cases that one or more of the following uses are prohibited: downloading, copying, storing, transmitting or transferring any information found on the CRA's website except on an occasional and irregular basis and only if the purpose is non-commercial.

The press release contains the key assumptions and data underlying how the CRA determined the particular Traditional Credit Rating. Often, it also incorporates the information or a link to the information that Regulated CRAs are required by statutes or regulations to publicly disclose.

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<sup>27</sup> A larger CRA advised that it does not consider any OCP - Research, other than the press release (see Section 4.1.1.1 for a description of "press releases"), to be related to an individual Traditional Credit Rating. Although the CRA may, subsequent to a rating action, publish an issuer report (see Section 4.1.1.1 for a description of reports with analysis underlying a specific rating action), in the opinion of the CRA, that OCP - Research should not be considered intrinsically linked to the rating action and there is no guarantee that it was developed as part of the rating action or, indeed, by the rating analyst responsible for the relevant rating action.

B) Reports with analysis underlying a specific rating action:

When CRAs deem it to be appropriate, CRAs publish additional information and analysis related to the initial Traditional Credit Rating or to the rating action taken on an existing Traditional Credit Rating. In these instances, CRAs typically publish a report providing more in-depth analysis of the information that the CRAs disclosed in the relevant press release. According to the CRAs, this report could be published at the same time as the Traditional Credit Rating or when a rating action on an existing Traditional Credit Rating is taken, or in the weeks following such events. Typically, the press release related to the Traditional Credit Rating points the reader to the special issue by way of a clickable hyperlink; and typically, in order to access the report, the CRAs require a premium subscription to their websites and the special issue is therefore available only for a fee and through the acceptance of a license agreement.

C) Pre-sale reports:

As discussed in Section 4.3.1.2.1 of this Final Report, a proposed structured finance instrument is a structured financial instrument that the arranger of the structured finance instrument intends to offer to investors, but for which the arranger has not yet finalized certain features. In these instances, the arranger uses an SF Preliminary Assessment<sup>28</sup> to market the offering of the proposed structured finance instrument. The SF Preliminary Assessment is generally provided as part of what is typically called a “pre-sale report” prior to the issuance of the structured finance instrument and to the publication of the Traditional Credit Rating. Pre-sale reports provide a high-level summary of pertinent information on the issuance, including the structure of the product to be issued and historical information on the underlying assets.

**4.1.1.2 OCP - Research: Other**

The second type of OCP - Research is independent or not directly related to the publication of a Traditional Credit Rating or to the publication of a rating action taken on an existing Traditional Credit Rating. CRAs publish this type of OCP - Research to provide additional information to the market with respect to a particular issuer of financial instruments that the CRAs already rate, or to provide information to the market on a particular sector or on events that could affect a particular sector.

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<sup>28</sup> See Section 4.3.1.2.1 of this Final Report for a more in depth discussion of SF Preliminary Assessments.

Some larger CRAs specifically identify this type of OCP - Research as part of the products offered to their customers, and commercialize them respectively as “special comments” and “commentary”. While these CRAs provide a description of these OCP - Research (see table below) on their websites, issues such as the approval process and safeguards against conflicts of interests are not addressed.

*List of OCP - Research definitions available on the website of some larger CRAs.*

<b>Larger CRA</b>	<b>Larger CRA</b>
<p><i>Special Comments</i></p> <p>[CRA] may from time to time issue Special Comments relating to particular industries, sectors, commodities, regions or issuers. Special Comments are not methodological either in content or in intent and do not modify the analytical approach described in rating methodologies. Rather, Special Comments are generally intended to: (i) set out [CRA]’s views on issuer-specific concerns or developments; (ii) describe macroeconomic or sector trends (such as changing industry demand conditions, new legislation or regulatory developments) and to comment on their directional impact on ratings; and (iii) explain certain rating processes to help investors better understand how [CRA]’s analysts do their work, including explaining how [CRA] will assess the impact of specific or broader trends.</p>	<p><i>Commentary</i></p> <p>A commentary is a method by which [CRA] makes its opinions known to the market without taking a rating action.</p> <p>[CRA] issues a commentary, in the form of a short press release or a longer document, to address situations that may have implications for a specific issuer, a group of issuers or an entire industry, often following a new release of information or announcement.</p>

A) Individual issuer or instrument reports:

OCP - Research may be published with the exclusive focus on an individual issuer or a financial instrument independently of a rating action having been taken on that particular issuer or instrument. Examples include the following: “issuer reviews”, “issuer in-depth”, “issuer comment”, “company profile”, “credit opinion”, “commentary” and “non-rating action commentary”. A typical issuer review may provide key statistics and qualitative analysis about the financial performance of the issuer, the competitive environment in which it operates, regulatory matters, and demand prospects for the product or service offered by the issuer globally or in specific geographical locations. In the area of securitization, reports are published on the performance of loans or assets underlying a particular securitization. Examples of these reports include the following: “performance reports”, “performance analytics reports”, “index report” and “performance overview”. These reports typically provide key quantitative statistics which may or may not be accompanied by qualitative analysis.

B) Sector and market reports:

OCP - Research may include the results of the analysis of the creditworthiness of a group of issuers or financial instruments within a specific industry, sector or geographic area. This type of OCP - Research is published under different names. Examples include the following: “industry outlooks”, “special report”, “navigator”, “sector overviews”, “sector outlooks”, “trend analyses” and/or “projections”. A larger CRA stated that this research may benefit from analysis already undertaken during the Traditional Credit Rating process, indicating that information provided by rated entities may be relied on in connection with the publication of sector reviews.

This type of OCP - Research typically covers any trend which could influence the creditworthiness of issuers in a particular industry, sector or geographical location. Such OCP - Research typically could include analysis regarding technological, macro-economic and regulatory changes, trends observed for the aggregate demand for the product or service as well as the availability and cost of production inputs.

C) Specific event impact reports:

In some cases, OCP - Research focuses on a specific event or on a number of different scenarios, which could impact the Traditional Credit Rating of one or more issuers or multiple financial instruments. Similar to sector reviews, examples include the following: “industry outlooks”, “special report”, “navigator”, “sector overviews”, “sector outlooks”, “trend analyses” and/or “projections”.

D) Other reports:

In addition to the types of OCP - Research identified in Sections 4.1.1.1 and in paragraphs A) – C) above, CRAs issue many other types of OCP - Research which appear to fall within the scope of the definition of OCP - Research. The table below provides a list of different types of OCP - Research available on the website of a sample of CRAs during one week in 2016 (the numbers may not be representative of an average week). There is a considerable difference in the number and types of other reports offered by different CRAs. It is important to note that the categories are not always mutually exclusive: for example, a document may be listed as “industry study” as well as “commentary”.

Some larger CRAs and a smaller CRA offer videos and webcasts; these videos typically feature interviews with management and staff of the CRA in a setting similar to that of a news studio.

*All the types of documents categorised as “research” by four CRAs and published on their websites during one week in 2016.*

Larger CRA	Larger CRA	Smaller CRA	Smaller CRA
Press Release Rating reports Peer Comparison Industry studies Commentaries Securitization Servicer report Announcements New issue Newsletters Seminars and events Presale Other Performance analytics reports	Market comment Market outlook Market Signal review Sector insights Indices List of ratings Market Data Peer Snapshot Performance overview Performance report Periodic Reports Default Studies Economic Research industry outlook Sector Comment Market Comment Sector in-depth Special Report periodicals APCP Program review Credit opinion LGD Assessment New issue New Issuer Report Pre-Sale Report Rating update	Studies/Reports Company news Research Commentary Monitoring note Rating news	News Service Press Releases Statistical Studies Special Reports/briefings Regulatory

	Servicer report Issuer Comment Assessment Covenant Quality Assessment Credit focus Issuer in-depth Regulatory report Issuer profile Announcement Rating Action Rating methodologies Request for comment		
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#### 4.1.2 Application of the IOSCO CRA Principles and Code of Conduct

CRAs generally agree that<sup>29</sup> press releases – a form of OCP - Research – are covered by the Code of Conduct.<sup>30</sup> However, CRAs view OCP – Research, other than press releases, in different ways, as follows: one larger CRA believes that the application of the IOSCO CRA Principles or the Code of Conduct to OCP - Research would interfere with its ability to freely express its opinions on important matters of public concern. Another larger CRA advised, instead, that it fully applies the IOSCO CRA Principles and the Code of Conduct to OCP - Research.

Another larger CRA advised that it publishes OCP - Research in accordance with a comprehensive set of procedures that are formalized and documented, however, such procedures are different from those followed in connection with the publication of Traditional Credit Ratings.

Two European trade groups, representing securities dealers, advised that they believe OCP - Research should be subject to the same standards and rules as Traditional Credit Ratings.

#### 4.2 Private - OCP: Overview

In this Final Report, a “Private - OCP” is described as a Traditional Credit Rating offered by a CRA with the exception that a Private - OCP is typically made available only to a restricted and controlled number of recipients.

CRAs offer Private - OCPs by different names, including, for example “private ratings” and “confidential ratings”.

Private - OCPs typically share the following key features:

- Private - OCPs are determined and issued pursuant to the same rating processes as a Traditional Credit Rating (for example, determined by a rating committee), and using the same rating methodologies, but unlike a Traditional Credit Rating, they are not made available to the public or to all subscribers;
- Private - OCPs are used mainly by obligors and issuers as a preliminary credit assessment or for self-evaluation. Other entities such as investors, sponsors and

<sup>29</sup> Committee 6 notes that the Code of Conduct includes provisions that address what information a CRA should disclose in the announcement of a Traditional Credit Rating.

<sup>30</sup> As noted in footnote 1 in this Report, the Code of Conduct defines a “credit rating” as “an assessment regarding the creditworthiness of an entity or obligation, expressed using an established and defined ranking system”. This definition is relevant elsewhere in Chapter 4 of this Report where the application of the Code of Conduct is discussed.



underwriters may use Private - OCPs to make credit decisions or as part of assessing and managing risk;

- Private - OCPs are typically expressed using the same scale and symbology as Traditional Credit Ratings. An identifier (such as a suffix) may be attached to indicate that the Private - OCP is not available to the public or to all subscribers;
- Private - OCPs are typically determined by the same analytical and managerial personnel who determine Traditional Credit Ratings;
- Private - OCPs are determined using the same type of information (public and confidential) used to determine Traditional Credit Ratings;
- the commercial aspects of Private - OCPs are typically handled by the same personnel who are involved in the marketing and sales activities for Traditional Credit Ratings;
- Private - OCPs can be surveilled or monitored in the same way as Traditional Credit Ratings (for example, on an ongoing basis, at the request of the customer, or not at all in the case of “point-in-time” Private - OCPs); and
- Private - OCPs can convert to Traditional Credit Ratings at the request of the issuer in the case of an issuer rating, or of the issuer of the relevant financial instrument in the case of an issue specific rating. Some larger CRAs reported that conversion to a Traditional Credit Rating requires a new review and vote by a rating committee, whereas another larger CRA advised that conversion to a Traditional Credit Rating occurs simply upon the CRA’s approval of the issuer’s request.<sup>31</sup> Based on responses received from the CRAs surveyed and interviewed in connection with Committee 6’s work, it remains unclear whether the conversion from a Private - OCP to a Traditional Credit Rating requires the payment of a fee by the issuer.

#### **4.2.1 Types of Private - OCP**

CRAs typically issue Private - OCPs pursuant to a letter that contains the rating and information about the rating – that is, the same information that is normally included in the rating letter that accompanies Traditional Credit Ratings - as well as any restrictions on the use, distribution or disclosure of the Private - OCP. CRAs may require the recipient(s) of the letter to provide a copy of the letter to any additional recipients who are informed about the Private - OCP. CRAs may also require the recipient(s) of the letter to provide the names of any additional recipients to the CRA.

As technology has evolved and new platforms and cloud computing have been created, information can be stored and accessed remotely in a purportedly secure and controlled way. This has led some CRAs to develop new types of Private - OCPs. In particular, in the syndicated loan market where lenders are sensitive to the dissemination of Traditional Credit Ratings, in the infrastructure and project finance sectors, and in the private placement market, which by definition is limited in terms of the number of investors that have access, a larger CRA has developed a new type of Private - OCP. While the nature and substance of this new Private - OCP is the same as other Private - OCPs, the newer Private - OCP is delivered by the CRA to a data room managed by a third-party provider on behalf of the issuer of the financial

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<sup>31</sup> One larger CRA advised that it does not convert its Private – OCPs into Traditional Credit Ratings; if an issuer carries a Private – OCP, but wishes to obtain a Traditional Credit Rating, this larger CRA “re-contracts” with the issuer for the new service, the Private – OCP is withdrawn and a new Traditional Credit Rating is assigned in accordance with all applicable policies and procedures and through the standard rating committee process.

instrument. The option to access the Private - OCP is then granted only to the investors in the relevant financial instrument. Under this framework, the issuer of the financial instrument is responsible for inviting the investors to the data room and all invitees are required to sign a non-disclosure agreement.

#### **4.2.2 Application of the IOSCO CRA Principles and Code of Conduct**

One smaller CRA advised that, as a general rule, it considers the definition of “credit rating” in the Code of Conduct to apply to Private - OCP.

One larger CRA similarly advised that, as a general rule, it considers the definition of “credit rating” in the Code of Conduct as well as how the term is used in the IOSCO CRA Principles to apply to Private - OCP.

#### **4.3 Non-Final OCP: Overview**

In this Final Report, “Non-Final OCP” is described as a product or service offered by a CRA in which the CRA:

- provides a preliminary or initial assessment of the creditworthiness of an entity or obligation in respect of an existing, proposed or hypothetical financial instrument;
- issues an assessment that is preliminary or initial because either the information available to the CRA is not complete or because the issuer or arranger has not requested the CRA to issue a complete or final Traditional Credit Rating;
- typically uses the same established and defined rating symbology as it would for a final, Traditional Credit Rating (although a CRA may use a prefix or suffix to denote that the assessment differs from a Traditional Credit Rating); and
- provides a preliminary or initial assessment that is not a final Traditional Credit Rating, but may be converted into (or replaced with) a final Traditional Credit Rating if certain conditions are met.

CRA's offer different types of Non-Final OCPs and refer to those Products by different names. Examples include the following: “conditional rating”, “credit assessment”, “expected rating”, “hypothetical rating”, “impact assessment”, “indicative assessment service”, “indicative rating”, “initial rating”, “preliminary rating”, “provisional rating”, “rating assessment”, “rating assessment service”, and “rating evaluation service”.

Non-Final OCPs are typically offered on two types of financial instruments and the related issuers:

- 1) Non-Final OCPs for financial instruments other than structured finance instruments and the related issuers; and
- 2) Non-Final OCPs for structured finance instruments and the related issuers.

Both these types of Non-Final OCPs can be issued on proposed and hypothetical financial instruments or events. Section 4.3.1 of this Final Report will analyze in greater detail each of these Non-Final OCPs.

### 4.3.1 Types of Non-Final OCPs

#### 4.3.1.1 Non-Final OCPs for financial instruments other than structured finance instruments and related issuers.

CRA's offer different types of Non-Final OCPs for financial instruments other than structured finance instruments (a "Non-SF Financial Instrument") and issuers of Non-SF Financial Instruments. These Non-Final OCPs can be issued on: 1) *proposed* Non-SF Financial Instruments or issuers of *proposed* Non-SF Financial Instruments where the Non-Final OCP can either be made publicly available or kept private; and 2) *hypothetical* Non-SF Financial Instruments or issuers of *hypothetical* Non-SF Financial Instruments where the Non-Final OCP is typically not disclosed.

##### 4.3.1.1.1 Non-SF Preliminary Assessments (Confidential)

A proposed Non-SF Financial Instrument is a Non-SF Financial Instrument that the issuer of the Non-SF Financial Instrument intends to issue and offer to investors, but for which the issuer has not yet finalized certain features. Under this scenario, the issuer of the proposed Non-SF Financial Instrument would engage one or more CRA's to issue a Non-Final OCP to assess the creditworthiness of the proposed Non-SF Financial Instrument or of the issuer of the proposed Non-SF Financial Instrument. Generally speaking, Non-Final OCPs for proposed Non-SF Financial Instruments or for the issuer of the proposed Non-SF Financial Instrument are kept confidential.

This Report will generally refer to this category of Non-Final OCPs for proposed Non-SF Financial Instruments and for the issuer of the proposed Non-SF Financial Instrument as "Non-SF Preliminary Assessments".

CRA's offer Non-SF Preliminary Assessments under different names. Examples include the following: "indicative ratings", "initial ratings", "credit assessments" and "provisional ratings".

Many CRA's offer Non-SF Preliminary Assessments that typically have the following key features:

- the Non-SF Preliminary Assessment is intended to remain confidential; and
- if the issuer confirms the conditions applicable to the proposed Non-SF Preliminary Assessment and the issuer engages the CRA, the CRA will issue a Traditional Credit Rating.

Some CRA's make a distinction among Non-SF Preliminary Assessments for publicly-rated issuers, privately-rated issuers and unrated issuers.

Other features of the Non-SF Preliminary Assessments typically include the following:

- provide an issuer with rating level feedback for a proposed transaction (e.g., a proposed offering of debt securities) or the issuer itself;
- are an unmonitored, point-in-time opinion of the potential credit rating of an issuer or a proposed debt issuance of the issuer;

- are not final Traditional Credit Ratings, but are expressed using the CRA’s traditional rating scale and symbology (although the CRA may use a prefix or suffix to denote that the assessment is not final);
- may be delivered as a private letter to the issuer on a confidential basis;
- may be assigned using the same rating methodologies that are used for Traditional Credit Ratings; and
- may be converted into (or replaced with) a Traditional Credit Rating through a separate request by the issuer.

Some differences between the Non-SF Preliminary Assessments offered by the CRAs surveyed in connection with this Final Report include the following:

- the Non-SF Preliminary Assessments offered by a larger CRA are only available to unrated issuers or to rated issuers with an existing “private monitored rating”; and
- publicly-rated entities (e.g., companies with Traditional Credit Ratings) are generally not eligible for that CRA’s Non-SF Preliminary Assessment.

#### **4.3.1.1.1 Non-SF Preliminary Assessments (Public)**

Some Non-SF Preliminary Assessments are issued on a recurring, frequent and programmatic basis pursuant to a shelf registration type of offering. Under this scenario the issuer uses, as in the case of structured finance instruments, the CRA’s Non-SF Preliminary Assessment to market the Non-SF Financial Instrument. The issuer may issue the Non-SF Financial Instrument and the CRA issues the final Traditional Credit Rating only after such marketing efforts are completed. The Non-SF Preliminary Assessment on these types of Non-SF Financial Instruments is typically publicly disclosed and the features of this Non-Final OCP are very similar to the ones described in Section 4.3.1.2.1 for the SF Preliminary Assessments.

Medium term notes are one example of a Non-SF Financial Instrument. CRAs have different practices with respect to Non-SF Preliminary Assessments for medium term note (“MTN”) programs.

For example, a larger CRA assigns “provisional ratings” to MTN programs and final Traditional Credit Ratings to the separate tranches of notes issued under the programs (referred to as “drawdowns”). The CRA advises that:

- MTN program ratings are intended to reflect the ratings likely to be assigned to drawdowns under the program with the specified priority of claims (e.g., senior or subordinated);
- to capture the contingent nature of a program rating, the CRA assigns “provisional ratings” to the program, which are denoted by a “(P)” in front of the rating; and
- the rating assigned to a drawdown under the program is definitive in nature and may differ from the program rating if the drawdown is exposed to additional credit risks or has other structural features that warrant a different rating.

In contrast, a larger CRA generally assigns:

- a Traditional Credit Rating, which the CRA defines as an “issuer rating” when an issuer establishes an MTN program; and

- a Non-SF Preliminary Assessment, which the CRA defines as a “provisional rating” to a drawdown under the program when it is first announced. The CRA will finalize the “provisional rating” (i.e., confirm a final Traditional Credit Rating) when the final documents for the drawdown are complete.

**Example**

The Issuer is subject to “public company” obligations in its jurisdiction and has decided to file a shelf prospectus to offer notes under an MTN program.

***Timeline***

*Day 1*

On Day 1, the following events occurred:

1. CRA#1 issued a news release stating that it had assigned a (P) [XYZ] senior unsecured rating to the Issuer’s MTN program.
2. CRA#2 issued a news release and a rating report stating that it had assigned an issuer rating of [XYZ] (low) to the Issuer.
3. The Issuer filed a preliminary shelf prospectus to qualify the issuance of notes under the MTN program. The preliminary shelf prospectus disclosed that any future offering of notes would be made by way of a pricing supplement to the final shelf prospectus.

*Day 4*

On Day 4, the Issuer filed a final shelf prospectus for the MTN program.

*Day 11*

On Day 11, the following events occurred:

1. CRA#1 issued a news release stating that it had assigned a [XYZ] senior unsecured rating to the Issuer’s planned offering of a tranche of series 1 medium term notes to be issued under its MTN program, rated (P) [XYZ];
2. CRA#2 issued a news release stating that it had assigned a “provisional rating” of [XYZ] (low) to the Issuer’s proposed offering of series 1 medium term notes;
3. The Issuer provided preliminary marketing materials under its shelf prospectus for a proposed offering of series 1 medium term notes and its investment dealers began marketing the notes to investors. The preliminary marketing materials had “bullets” for the aggregate amount, price and interest payable on the notes. The preliminary marketing materials disclosed the rating of CRA#1 and the provisional rating of CRA#2; and
4. Later that day, after the initial marketing, the Issuer provided final marketing materials and a pricing supplement for the notes with details on the aggregate amount, price and interest payable on the notes.

*Day 16*

On Day 16, the Issuer issued the series 1 medium term notes.

*Day 21*

On Day 21, CRA #2 issued a news release stating that it had finalized the provisional rating of [XYZ] (low) on the series 1 medium term notes.

Other Non-SF Preliminary Assessments are issued on Non-SF Financial Instruments that have several features like structured finance instruments, but which may not be considered structured finance instruments. Under this scenario the issuer uses, as in the case of the structured finance instruments, the CRA's Non-SF Preliminary Assessment to market the Non-SF Financial Instrument. The issuer may issue the Non-SF Financial Instrument and the CRA issues the final Traditional Credit Rating only after such marketing efforts are completed. The Non-SF Preliminary Assessment on these types of Non-SF Financial Instruments is typically publicly disclosed and the features of this Non-Final OCP are very similar to the ones described in Section 4.3.1.2.1 for the SF Preliminary Assessments.

Infrastructure finance or project finance transactions are examples of these types of Non-SF Financial Instruments.

For example, in certain jurisdictions, infrastructure projects are procured through a public-private partnership ("P3"). A P3 project may involve the following:

- a public sector authority establishes the scope and purpose of the project while design and construction work is financed and carried out by a private sector entity;
- when the project is completed, the private sector entity will be repaid by the public sector authority;
- when the project enters into the procurement phase, the public sector authority issues a request for qualifications ("RFQ") inviting bidders from the private sector to provide information and demonstrate proven abilities in a number of areas, including their ability to finance the project during the construction phase;
- after reviewing submissions under the RFQ, the public sector authority announces a short list of prequalified bidders;
- the public sector authority will then issue a request for proposals ("RFP") to the bidders. The RFP sets out the conditions and specifications required to undertake the project;
- after reviewing submissions under the RFP, the public sector authority will select a preferred bidder and proceed to negotiate a project agreement with this bidder; and
- construction on the project can begin after the project agreement is signed.

Non-SF Financial Instruments issued in P3 financings are private debt obligations issued by the sponsor (i.e., the successful bidder) of a particular infrastructure project, generally through a special purpose vehicle ("SPV"). Repayment of the bonds typically rests upon receipt of payments made to the SPV by the public sector authority.

When acting for a bidder on a project, an investment dealer is required to give an underwriting commitment to the bidder prior to the bid date (i.e., the date that the bidder responds to the RFP) in respect of bond financing for the project:

- the investment dealer provides the underwriting commitment based on a Non-SF Preliminary Assessment (which is not made publicly available); and
- if the investment dealer's client is selected as the successful bidder, another Non-SF Preliminary Assessment and a Traditional Credit Rating will be obtained for the bond financing in due course and both will typically be made publicly available. There is an iterative process between the bid date and the financial close of the project (i.e., when the bonds are issued to investors). During this iterative process, the structure or the terms of the offering may change.

**Example**

A public sector authority decided to use a P3 for a highway expansion project in its jurisdiction.

**Timeline***Day 1*

On Day 1, the public sector authority issued an RFQ for interested parties to design, build, finance and maintain the project.

*Day 90*

On Day 90, the public sector authority announced that:

- it had short-listed three firms as prequalified bidders for the project and issued an RFP to those firms. and
- the short-listed bidders would be given 6 months to prepare and submit proposals in response to the RFP.

*Day 391*

On Day 391, the public sector authority announced that it had selected XYZ Partnership (the Issuer) as the preferred bidder for the project and would proceed to negotiate a project agreement with the Issuer over the next several weeks.

*Day 419*

On Day 419, the following events occurred:

1. CRA#1 issued a news release and a pre-sale report announcing that it had assigned “provisional ratings” of (P) [XYZ] to a proposed offering of senior secured series A bonds and senior secured series B bonds of the Issuer. The news release and the pre-sale report stated that:

- CRA#1 issues provisional ratings in advance of the executed final documentation and these ratings reflect the CRA’s preliminary credit opinion regarding the proposed transaction; and
- Upon a conclusive review of the final documentation, the CRA will assign definitive ratings (which may differ from the provisional ratings if there are material changes to the information and documents reviewed to date).

2. CRA#2 issued a news release and a pre-sale report announcing that it had assigned “provisional ratings” of [XYZ] (low) to the proposed offering of series A bonds and series B bonds of the Issuer.

*Day 440*

On Day 440, the public sector authority and the Issuer entered into a project agreement for the Issuer to design, build, finance and maintain the project.

*Day 443*

On Day 443, the following events occurred:

1. CRA#1 issued a news release stating that it had assigned a definitive [XYZ] rating to the planned issuance of series A bonds and series B bonds of the Issuer;

2. CRA#2 issued a news release and a rating report stating that it had finalized its provisional ratings of [XYZ] (low) for the series A bonds and series B bonds of the Issuer; and

3. The Issuer issued the series A bonds and series B bonds to finance the project.

**4.3.1.1.2 Non-SF Hypothetical Assessments**

A hypothetical Non-SF Financial Instrument is a Non-SF Financial Instrument that may be affected if certain hypothetical credit transforming events occur such as mergers and

acquisitions, restructurings, divestitures or recapitalizations. The issuer may have identified certain features of the credit transforming event that may occur. Under this scenario, the arranger engages one or more CRAs to issue a Non-Final OCP to obtain an assessment of the creditworthiness of the hypothetical Non-SF Financial Instrument or of the issuer of the hypothetical Non-SF Financial Instrument.

This Final Report will generally refer to this category of Non-Final OCPs for hypothetical Non-SF Financial Instruments and for issuers of hypothetical Non-SF Financial Instruments as “Non-SF Hypothetical Assessments”.

Many CRAs offer Non-SF Hypothetical Assessments of traditional corporate issuers. Some CRAs make a distinction among products for rated issuers and unrated issuers. Examples include the following: “rating assessment service”, “rating evaluation service”, “rating assessments” and “impact assessments”.

In general, Non-SF Hypothetical Assessments:

- are offered to issuers exploring credit transforming options such as mergers and acquisitions, restructurings, divestitures and recapitalizations or other transactions;
- are usually requested by issuers seeking to understand the impact of credit transforming actions or other transactions on their credit rating profile;
- allow the issuer to provide the CRA with information on one or more hypothetical scenarios (certain CRAs have formal or informal limits on the number of hypothetical scenarios);
- are provided to the issuer in a letter which provides that the assessments do not represent “final” Traditional Credit Ratings, but are expressed using the CRA’s traditional rating scale and symbology (although the CRA may use a prefix or suffix to denote that the assessment is not final);
- are confidential, but may be disclosed to a restricted number of parties in circumstances specified in a contract between the issuer and the CRA or in the CRA’s rating letter;
- are assigned using the same relevant rating methodologies that are used for Traditional Credit Ratings, except applied to hypothetical situations with assumptions provided by the issuer; and
- are point-in-time assessments and are not monitored or surveilled.

Some CRAs provide that if the issuer proceeds with a transaction contemplated by a hypothetical scenario, it can request a Traditional Credit Rating through a separate formal request.

#### **4.3.1.2 Non-Final OCPs for structured finance instruments**

CRAs offer different types of Non-Final OCPs for structured finance instruments. Similar to what CRAs offer for financial instruments other than structured finance instruments, these Non-Final OCPs can be issued on: 1) *proposed* structured finance instruments or issuers of *proposed* structured finance instruments where the Non-Final OCP can either be made publicly available or kept private; and 2) *hypothetical* structured finance instruments or issuers of *hypothetical* structured finance instruments where the Non-Final OCP is typically not publicly disclosed or provided to all the CRAs’ subscribers.



#### 4.3.1.2.1 SF Preliminary Assessments

A proposed structured finance instrument is a structured finance instrument that the arranger of the structured finance instrument intends to offer to investors, but for which the arranger has not yet finalized certain features: for example, the size of the overall transaction or the size of some of the tranches or other elements of the offering that may still be subject to negotiation with investors or internal deal structuring. Under this scenario, the arranger of the proposed structured finance instrument would engage one or more CRAs to issue a Non-Final OCP to preliminarily assess the creditworthiness of the proposed structured finance instrument or of the issuer of the proposed structured finance instrument. The arranger would then use the preliminary assessment of the engaged CRA(s) to market the offering of the proposed structured finance instrument. Depending on the type of securities offering pursued by the arranger (private versus public), the CRA's preliminary assessment will be publicly disclosed (or to all subscribers) or privately disclosed.

This Final Report will generally refer to this category of Non-Final OCPs for proposed structured finance instruments or for issuers of proposed structured finance instruments as "SF Preliminary Assessments".

CRAs offer SF Preliminary Assessments under different names. Examples include the following: "expected ratings", "provisional ratings" and "preliminary ratings".

Many CRAs offer SF Preliminary Assessments that typically have the following key features:

- the SF Preliminary Assessment is intended to be made publicly available unless the final offering of the proposed structured finance instrument is intended to be made privately, in which case the SF Preliminary Assessment will also only be disclosed privately by way of issuing a private rating;<sup>32</sup> and
- replacing the SF Preliminary Assessment with a final Traditional Credit Rating is subject to the fulfillment of certain conditions applicable to the proposed structured finance instrument (e.g., finalization of documents for the transaction).

When used in initial marketing to investors, other features of SF Preliminary Assessments typically include the following:

- the SF Preliminary Assessment is issued by the CRA prior to the closing of the transaction and the issuance of structured finance instruments to investors;
- arrangers use SF Preliminary Assessments as part of their pre-sale marketing to investors;
- the SF Preliminary Assessment addresses certain credit risks and the extent to which the payment stream from the collateral is adequate to make payments required on the securities, based on information provided as of a certain date;
- the CRA provides disclosure on how the SF Preliminary Assessment differs from a final Traditional Credit Rating:
  - The SF Preliminary Assessment on the proposed structured finance instrument is not final;

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<sup>32</sup> "Private ratings" are discussed in Section 4.2 of this Report.

- Following the CRA’s receipt and review of final information and documentation, the CRA may issue a final Traditional Credit Rating; and
- The final Traditional Credit Rating may differ from the SF Preliminary Assessment.
- the SF Preliminary Assessment is expressed using the same alpha-numeric ratings scale and symbology as the CRA’s final Traditional Credit Ratings (although a CRA may use a prefix or suffix to denote that the assessment is not final) and is determined using the same criteria and methodology used to determine a final Traditional Credit Rating; and
- the SF Preliminary Assessment is monitored or surveilled for potential change based on changes in information related to the structured finance instrument that is made available to the CRA. Once the SF Preliminary Assessment is confirmed as a final Traditional Credit Rating, ongoing surveillance monitoring is conducted periodically.

A number of CRAs consider these Non-Final OCPs in a two-stage process in which the CRA first issues an SF Preliminary Assessment and then assigns a final Traditional Credit Rating.

**Example**

ABC Trust (the Issuer) was created as an SPV to issue, from time to time, securities backed by credit card receivables (asset-backed securities) originated by a bank. The Issuer is subject to “public company” obligations in its jurisdiction and has filed a shelf prospectus under which it may conduct offerings of asset-backed securities to investors.

***Timeline***

*Day 1*

On Day 1, the following events occurred:

1. CRA#1 issued a news release and a pre-sale report announcing that it “expects to rate” a proposed offering of Class A Notes, Class B Notes and Class C Notes of the Issuer at AAAsf, Asf and BBBsf, respectively. The pre-sale report referred to these preliminary assessments as “expected ratings”;
2. CRA#2 issued a news release and a pre-sale report announcing that it had assigned “provisional ratings” of AAAsf, Asf and BBBsf to the proposed offering of Class A Notes, Class B Notes and Class C Notes, respectively, of the Issuer. The news release stated that finalization of the ratings was contingent upon receipt of final documentation conforming to information received by CRA#2;
3. The Issuer provided a draft pricing supplement to prospective investors under its shelf prospectus for a proposed offering of Class A Notes, Class B Notes and Class C Notes and its investment dealers began marketing the securities to investors. The draft supplement had “bullets” for the aggregate amount, price and interest payable for each class of notes. The draft supplement disclosed the expected ratings of CRA#1 and the provisional ratings of CRA#2; and
4. Later that day, after the initial marketing, the Issuer provided a final pricing supplement to prospective investors for the securities with details on the aggregate amount, price and interest payable for each class of notes.

*Day 8*

On Day 8, the following events occurred:

1. CRA#1 issued a news release stating that it had assigned Traditional Credit Ratings to the Class A Notes, Class B Notes and Class C Notes of the Issuer at AAAsf, Asf and BBBsf, respectively;

2. CRA#2 issued a news release and a rating report stating that it had finalized its provisional ratings and issued Traditional Credit Ratings of AAAsf, Asf and BBBsf for the Class A Notes, Class B Notes and Class C Notes, respectively, of the Issuer; and
3. The Issuer issued a news release announcing that it had completed the offering.

It is worth noting that between the time when the arranger engages one or more CRAs to preliminarily assess a proposed structured finance instrument (either initially in the early stages of structuring the transaction or later prior to marketing) and the time when the relevant final Traditional Credit Rating is expected to be issued, several events can take place:

- 1) a change of micro- or macro- economic circumstances (for example, the arranger of the proposed structured finance instrument may realize that a sudden change in market conditions could negatively impact the offering of the proposed structured finance instrument), for which the arranger may decide:
  - a. not to continue marketing or indefinitely postpone the marketing of the proposed structured finance instrument. In this case, the SF Preliminary Assessment would not be published; or
  - b. after marketing the proposed structured finance instrument, not to offer the structured finance instrument or postpone the offering of the structured finance instrument. In this case, the SF Preliminary Assessment would have been published, but the Traditional Credit Rating would not be issued.
- 2) The SF Preliminary Assessment or the relevant final Traditional Credit Rating issued by the CRA(s) engaged by the arranger does not satisfy the arranger. Under these circumstances, the arranger may:
  - a. choose not to pursue the marketing or the offering of the structured finance instrument; or
  - b. choose not to engage the CRA that provided the unsatisfactory SF Preliminary Assessment or the relevant final Traditional Credit Rating and engage a new CRA. This practice is sometimes referred to as “ratings shopping”.

#### **4.3.1.2.2 SF Hypothetical Assessments**

A hypothetical structured finance instrument is a structured finance instrument that the arranger is considering to structure or a structured finance instrument that already exists and is outstanding, but that may be affected by credit transforming events such as mergers and acquisitions, restructurings, divestures or recapitalizations. The arranger may have identified certain features of the structured finance instrument that it intends to structure (such as the type of collateral, the overall size of the deal or the asset class and the desired investor group) or certain features of a credit transforming event that may occur. Under this scenario, the arranger engages one or more CRAs to issue a Non-Final OCP to obtain an assessment of the creditworthiness of the hypothetical structured finance instrument or of the issuer of the hypothetical structured finance instrument.

This Final Report will generally refer to this category of Non-Final OCPs for hypothetical structured finance instruments or for issuers of hypothetical structured finance instruments as “SF Hypothetical Assessments”.

As discussed in Section 4.3.1.1.2 of this Final Report, many CRAs offer Non-Final OCPs for hypothetical financial instruments other than structured finance instruments or for issuers of hypothetical financial instruments other than structured finance instruments. However, not all CRAs surveyed in connection with this Final Report issue SF Hypothetical Assessments. Those CRAs which offer SF Hypothetical Assessments may refer to them as a “rating evaluation service” or “rating assessments”.

In general, SF Hypothetical Assessments:

- are offered to issuers exploring credit transforming options such as mergers and acquisitions, restructurings, divestitures and recapitalizations or other transactions;
- are usually requested by issuers seeking to understand the impact of credit transforming actions or other transactions on their credit rating profile;
- allow the issuer to provide the CRA with information on one or more hypothetical scenarios (a larger CRA has expressed limits on the number of hypothetical scenarios that can be submitted for analysis);
- are provided to the issuer in a letter which provides that the assessments do not represent final Traditional Credit Ratings, but are expressed using the CRA’s traditional credit rating scale and symbology (although the CRA may use a prefix or suffix to denote that the assessment is not final);
- are confidential, but may be disclosed to a restricted number of parties in circumstances specified in a contract between the issuer and the CRA or in the CRA’s rating letter;
- are assigned using the same relevant rating methodologies that are used for Traditional Credit Ratings, except applied to hypothetical situations with assumptions provided by the issuer; and
- are point-in-time assessments and are not monitored or surveilled.

#### **4.3.2 Application of the IOSCO CRA Principles and the Code of Conduct**

##### **Non-Final OCPs for proposed transactions**

Certain CRAs have advised that they do consider the definition of “credit rating” in the Code of Conduct to apply to the Non-Final OCPs described in the following sections of this Final Report:

- Section 4.3.1.2.1 – SF Preliminary Assessments; and
- Section 4.3.1.1.1 – Non-SF Preliminary Assessments.

##### **Non-Final OCPs for hypothetical transactions**

Most larger CRAs have advised that they do not consider the definition of “credit rating” in the Code of Conduct to apply to their SF Hypothetical Assessments and Non-SF Hypothetical Assessments, as described in Sections 4.3.1.2.2 and 4.3.1.1.2, respectively, of this Final Report.

- For example, a larger CRA has indicated that it does not think the definition of “credit rating” in the Code of Conduct and in the IOSCO CRA Principles applies to its Non-Final OCP for issuers since these assessments consider hypothetical scenarios presented

by an issuer, as opposed to actual events on which Traditional Credit Ratings are based, for purposes of contrast for Code analysis.

- Nevertheless, the above mentioned larger CRAs have advised that they generally apply the Code of Conduct and IOSCO CRA Principles provisions to their Non-Final OCPs for hypothetical transactions.

#### **4.4 OCP - Part of the Rating Process: Overview**

In this Final Report, “OCP - Part of the Rating Process” is described as products and services offered by a CRA:

1. to provide an assessment of a party or function that plays a key role affecting the performance and credit quality of a rated financial instrument (for example, assessing the quality of an originator or a servicer as part of determining a rating on a structured finance instrument), or to assess or monitor the performance of certain assets constituting the collateral of a rated financial instrument;
2. to be used as an input in the process of determining a Traditional Credit Rating;
3. that can be used to provide additional information to users of Traditional Credit Ratings on a discrete aspect of a rated transaction or issuer; and
4. that usually do not convert into a Traditional Credit Rating.

CRAs offer different types of OCP - Part of the Rating Process and refer to them by different names. Examples include the following: “trustee quality assessments”, “servicer quality assessments”, “servicer evaluations”, “servicer rating originator assessments”, “investment manager quality assessments”, “credit estimates”, “rating agency confirmations”, “credit opinions”, “credit scores”<sup>33</sup>, “commercial mortgage evaluators”, “portfolio assessments”, “mappings”, “mortgage originator reviews”, “recovery ratings”, “CDO evaluator”, “CDO monitor”, “covered bond monitor”, “market value evaluator”, and “credit profile consultation reports”.

OCP - Part of the Rating Process typically have the following key features:

- OCP - Part of the Rating Process are used (and may be required) by the same CRAs that issue them as an input into the process to determine a Traditional Credit Rating. Most OCP - Part of the Rating Process are also developed, determined and offered as products independent from Traditional Credit Ratings: users of OCP - Part of the Rating Process use them as an additional data point to better understand and contextualize the assessment provided by Traditional Credit Ratings. Users of the OCP - Part of the Rating Process are either the entities being assessed (for example, obligors, trustees, originators and servicers), which use the OCP - Part of the Rating Process to market themselves to arrangers of prospective transactions, or investors who use Traditional Credit Ratings but are interested in obtaining more information on specific aspects of a rated transaction or issuer;

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<sup>33</sup> “Credit scores” can also be found under Section 4.5 “OCP - Outside the Rating Process” below, as they can be either used by the same CRAs that issue them as an input into the process to determine a Traditional Credit Rating, in which case they are considered OCP - Part of the Rating Process, or they can be issued as an independent product in which case they are considered OCP - Outside the Rating Process.

- most OCP - Part of the Rating Process are determined and issued in connection with the issuance of Traditional Credit Ratings on structured finance instruments;
- almost every OCP - Part of the Rating Process is determined, issued and expressed on a global scale;<sup>34</sup>
- most OCP - Part of the Rating Process are expressed on an alphanumeric scale (e.g., AA, A1, bb and B+) or a descriptive scale (e.g., a 5-point scale ranging from extremely strong to weak). Some larger CRAs express their OCP - Part of the Rating Process on a global rating scale and use a lowercase format or add a suffix to distinguish the OCP - Part of the Rating Process from Traditional Credit Ratings;
- OCP - Part of the Rating Process are issued as a result of a standardized analytical process. Methodologies applicable to the issuance of OCP - Part of the Rating Process combine both quantitative and qualitative factors. Credit scores appear to be the only OCP - Part of the Rating Process that may be produced solely on a quantitative basis. Products such as Quasi – Traditional Credit Ratings (as defined below) tend to use a partial or abbreviated version of a Traditional Credit Rating methodology;
- some OCP - Part of the Rating Process, such as credit estimates and Assessments of Financial Instrument Participants (as defined below), are monitored and updated periodically and revised at least on an annual basis. Others like credit opinions and scores are point-in-time assessments and are updated only at the request of the obligor. Assessments of Financial Assets (as defined below) are monitored or surveilled on an ongoing basis;
- some OCP - Part of the Rating Process are determined by personnel of the CRA who are also involved in determining a broad range of Traditional Credit Ratings, while other OCP - Part of the Rating Process are produced by a dedicated team of analysts from a given division of the CRA. For example, the structured finance rating analysts at a larger CRA also determine trustee assessments while at another larger CRA, the same product is determined by a potentially larger group of analysts who determine Traditional Credit Ratings. Most OCP - Part of the Rating Process are based on public and confidential information. Confidential information is typically provided by the party that is being assessed for purposes of the OCP - Part of the Rating Process.
- OCP - Part of the Rating Process cannot be converted into a Traditional Credit Rating on a stand-alone basis with the exception of a larger CRA which allows credit estimates to be converted into Traditional Credit Ratings; and
- some OCP - Part of the Rating Process can be sold to market participants separately from Traditional Credit Ratings and can be marketed independently from Traditional Credit Ratings. Most larger CRAs advised that they issue OCP - Part of the Rating Process to differentiate themselves from other CRAs. They consider these products as an opportunity to gain market share and compete against other CRAs.

#### **4.4.1 Types of OCP - Part of the Rating Process**

CRAs offer different types of OCP - Part of the Rating Process. All OCP - Part of the Rating Process can be incorporated into the process that leads to determining a Traditional Credit Rating, but unlike Traditional Credit Ratings, OCP - Part of the Rating Process provide an assessment of only a specific party or function affecting the performance and credit quality of the financial instrument to be rated: some OCP - Part of the Rating Process are akin to a

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<sup>34</sup> Assessments of Financial Instrument Participants (as such term is defined in Section 4.4.1.2 below) applicable to trustees may be determined, issued and expressed using local scale rating symbology and definitions.

Traditional Credit Rating but fall short of providing a full analysis; and some OCP - Part of the Rating Process only provide a quantitative analysis of how the assets forming the collateral that supports payment on a rated financial instrument perform or could perform under certain economic scenarios.

One larger CRA indicated that some OCP - Part of the Rating Process (e.g., “mapping”) have unique features and do not fit within the parameters of the three subgroups discussed below. This larger CRA requested that a fourth subgroup be created for these unique OCPs. Committee 6 notes that the descriptions of the Other CRA Products in this Final Report are intended to capture and represent the current state of Other CRA Products, business practices and trends within the CRA industry. They are not intended to describe Other CRA Products issued by any specific CRA. The descriptions also may not reflect how individual regulators or policymakers treat Other CRA Products, as Committee 6 did not analyze the statutory requirements of individual jurisdictions.

For purposes of this Final Report, Committee 6 identified three main types or subgroups of OCP - Part of the Rating Process:

- 1) Quasi - Traditional Credit Ratings;
- 2) Assessments of Financial Instrument Participants; and
- 3) Assessments of Financial Assets.

#### **4.4.1.1 OCP - Part of the Rating Process: Quasi - Traditional Credit Ratings**

Quasi - Traditional Credit Ratings, as the name implies, are similar to Traditional Credit Ratings in that they provide an assessment of the creditworthiness of a financial instrument. The differences are as follows: Quasi -Traditional Credit Ratings are assigned solely at the request of a party other than the issuer of the financial instrument; typically, they are confidential (however, a larger CRA publishes some of its Quasi -Traditional Credit Ratings); and they are based on an abbreviated analysis and without applying the entire methodology that would otherwise be applied to determine a Traditional Credit Rating. Quasi -Traditional Credit Ratings are point in time assessments, typically assigned for the purpose of including unrated collateral, such as CDOs, in SPVs. Generally, CRAs assign Quasi -Traditional Credit Ratings on a scale that is different from the one used to express Traditional Credit Ratings; the nomenclature for this type of rating scale uses lower cases and suffixes.

CRAs offer Quasi - Traditional Credit Ratings under different names. Examples include the following: “credit estimates”, “private credit analysis” and “credit opinions”.

#### **4.4.1.2 OCP - Part of the Rating Process: Assessments of Financial Instrument Participants**

Unique roles exist among participants in the securities market. For example, for structured finance transactions, originators, servicers, and trustees all serve distinct functions. An originator specializes in creating loans that serve as collateral for payment on the structured finance instrument. A servicer is responsible for collecting borrowers’ payments on those loans and forwarding them to the trustee. The trustee uses these funds to pay investors in the structured finance instrument, fees of the participants, and expenses of the transaction. The methodologies developed by some CRAs to rate financial instruments, and structured finance instruments in particular, typically include an analysis of the ability of key participants such as

servicers, originators and trustees to perform their roles: their performance has an impact on the credit quality of rated financial instruments and the ability of investors to receive payments. CRAs typically disclose their performance measurement expectations and methodologies for assessing servicers,<sup>35</sup> trustees<sup>36</sup> and originators,<sup>37</sup> often on a special scale (collectively, “Assessments of Financial Instrument Participants”). The Assessments of Financial Instrument Participants are inputs into the process for determining Traditional Credit Ratings. The Assessments are publicly available or, depending on the CRA’s business model, available to subscribers, and are based on public and confidential information provided to the CRAs by the Financial Instrument Participant being assessed.

**Example**

The CRA affirms the Master Servicer Assessment of Servicer #1 and assigns a Primary Servicer Assessment to Servicer #2. The CRA assigns provisional and definitive ratings to an RMBS transaction where Servicer #1 acts as the Master Servicer and Servicers #2 and #3 act as the Primary Servicers.

**Timeline**

*Day 1*

On Day 1, the CRA issued an announcement stating that it has affirmed an assessment of [xyz]+ to Servicer #1 as the Master Servicer of residential mortgage loans.

The assessment is based on the servicer’s reporting and remittance processes, compliance and monitoring capabilities, and servicing stability. The CRA’s assessment scale ranges from [xyz] (strong) to [xyz] (weak), with “+” or “-” modifiers added where appropriate. The CRA monitors its servicer assessments and formally re-evaluates these assessments annually.

*Day 13*

On Day 13, the CRA issued an announcement stating that it has assigned an assessment of [xyz]+ to Servicer #2 as a Primary Servicer of prime loans. The assessment is based on the servicer’s abilities with respect to collections, loss mitigation, foreclosure timeline management, loan administration and servicing stability.

*Day 25*

On Day 25, the CRA issued a Servicer Report for Servicer #1.

*Day 31*

On Day 31, the CRA issued a Servicer Report for Servicer #2. The report features the servicer quality assessment previously published on Day 13.

*Day 258*

On Day 258, Servicer #2 issued a news release stating that it has received “high marks” and positive servicer assessments from the CRA.

*Day 430*

On Day 430, the CRA issued a news release stating that it has assigned provisional ratings to Prime RMBS issued by ABC Mortgage Trust .

<sup>35</sup> For example, a CRA expresses its servicer assessments on a scale from Level 1 to Level 5.

<sup>36</sup> For example, a CRA expresses its trustee assessments on a scale from TQ1.nn to TQ5.nn, where the modifier “nn” signifies the relevant country.

<sup>37</sup> For example, a CRA expresses its originator assessments following six levels from Strong to Unacceptable.



Servicer #1 acts as the Master Servicer, responsible for servicer oversight, termination and successor appointments. Servicer #2 acts as the Primary Servicer on 90% of the loan pool and Servicer #3 acts as the Primary Servicer on 5% of the loan pool.

The CRA's pre-sale credit opinion references the Master Servicing Assessment of [xyz]+ of Servicer #1 and the Primary Servicing Assessment of [xyz]+ of Servicer #2. Reference is made to the previously published servicer quality assessment reports.

The CRA does not assess Servicer #2 as a servicer. The CRA finds Servicer #2 adequate based on an operational review. The CRA's RMBS methodology states that during the initial review of the transaction, the CRA considers the level of information received from the servicer and the results of the servicer quality analysis.

The CRA's RMBS methodology states that it supplements portfolio analysis with servicer assessments. For prime loans, the CRA expects servicing to focus on payment processing and loan performance reporting. Once servicers are shown to perform these functions, the CRA expects these activities to have a neutral effect on pool performance.

*Day 438*

On Day 438, the CRA issued a news release stating that it has assigned definitive ratings to Prime RMBS issued by ABC Mortgage Trust.

Originators, servicers and trustees can also use their respective Assessments of Financial Instrument Participants to sustain existing business and attract future business.

CRAs offer Assessments of Financial Instrument Participants under different names. Examples include the following: "originator assessments", "servicer assessments" and "trustee assessments".

#### **4.4.1.3 OCP - Part of the Rating Process: Assessments of Financial Assets**

Some OCP - Part of the Rating Process only provide a quantitative analysis of how the assets forming the collateral that supports payments on a rated financial instrument perform or could perform under certain economic scenarios. In other cases, the products offer a model to monitor the performance of the assets underlying a rated structured finance instrument (collectively, "Assessments of Financial Assets"). Models comprising Assessments of Financial Assets are typically available for purchase by managers of financial instruments and some Assessments of Financial Assets are used by CRAs to determine, monitor and surveil Traditional Credit Ratings.

CRAs offer Assessments of Financial Assets under different names. Examples include the following: "structured credit portfolio assessments", "recovery ratings", "CDO evaluator", "CDO monitor", "covered bond monitor model", "insurance risk-based capital model", "hedge fund evaluator model" and "market value evaluator".

#### **4.4.2 Application of the IOSCO CRA Principles and Code of Conduct**

Some larger CRAs have advised that they consider OCP - Part of the Rating Process to be outside the scope of the Code of Conduct unless OCP - Part of the Rating Process are used by the CRA to determine a Traditional Credit Rating, in which case when they become part of the Traditional Credit Rating process, they are also captured by the relevant provisions of the Code

of Conduct. One larger CRA, in particular, noted that externally distributed models assessing financial assets, if used in the rating process, would be subject to the Code of Conduct and the IOSCO CRA Principles. Nevertheless, most CRAs advised that they generally apply the Code of Conduct provisions to OCP - Part of the Rating Process.

#### **4.5 OCP - Outside the Rating Process: Overview**

In this Final Report, “OCP - Outside the Rating Process” is described as products and services offered by CRAs in which the CRA provides information or assessments on the following: (i) issuers and their financial instruments; (ii) sectors of the financial industry; and (iii) market participants in general. Such information or assessments may focus on specific aspects of creditworthiness, for example, an opinion on the ability of an entity to generate value for shareholders and an overview of the enterprise risk management practices of a company, or may provide a quantitative assessment of specific aspects of the cash flow of a transaction or of an ongoing concern, for example, an estimate of expected losses, an estimate of capital adequacy for a particular organization, estimates of loan- and pool- level performance, estimates of the repayment of principal under specific stress scenarios, and credit scores.

A larger CRA explained OCP - Outside the Rating Process, as follows: while Traditional Credit Ratings are generally issued to provide useful information primarily to investors, OCP - Outside the Rating Process primarily provide additional tools and information to issuers that may complement (or compete with) Traditional Credit Ratings. Potential examples in this latter category are bond implied ratings and credit default swap spreads.

Typically, only certain of the larger CRAs issue OCP - Outside the Rating Process. These products are also typically developed and offered not directly by the CRA, but by the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs’ parent companies not subject to CRA regulations.

CRAs offer different types of OCP - Outside the Rating Process and refer to these products by different names. Examples include the following: “Stock Evaluations”, “Recovery Analytics”, “Credit Scores”, “Indices”, “Market-Implied Ratings”, “Green Bond Assessments”, “Conferences” and “Trainings” (and the relevant content), “Credit Rating Feeds” and “Portfolio Credit Models.”

OCP - Outside the Rating Process typically have the following key features:

- OCP - Outside the Rating Process are products that CRAs issue separately and independently from Traditional Credit Ratings: these products (unlike the OCP - Part of the Rating Process<sup>38</sup>) may neither be issued in connection with a Traditional Credit Rating nor used as part of the rating process to generate a Traditional Credit Rating;
- OCP - Outside the Rating Process are assigned and expressed using a different scale than that for Traditional Credit Ratings;
- OCP - Outside the Rating Process follow standardized processes and apply specific models or methodologies, which CRAs are not required to disclose;
- the information used by the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs’ parent companies not subject to CRA regulations to generate the OCP - Outside the Rating Process is typically a combination

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<sup>38</sup> OCP - Part of the Rating Process are discussed in Section 4.4 of this Final Report.

of confidential and public information. The affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs' parent companies not subject to CRA regulations may receive confidential information obtained by the CRA in connection with determining Traditional Credit Ratings. Regulated CRAs that share confidential information with the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs' parent companies not subject to CRA regulations state that the information is "anonymized" prior to sharing;

- with the exception of a larger CRA, the analysts performing work on OCP - Outside the Rating Process may also be involved in determining Traditional Credit Ratings; and
- some of the OCP - Outside the Rating Process are made publicly available and some are kept confidential.

#### **4.5.1 CRAs' Corporate Structure**

OCP - Outside the Rating Process are typically issued by the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs' parent companies not subject to CRA regulations.

The definition of "CRA", as used in the Questionnaires published in connection with this Final Report, was intended to capture all of the CRAs' affiliates, divisions and business combinations whether or not these entities and businesses are involved in determining Traditional Credit Ratings or are regulated. Committee 6 members posed numerous questions to CRAs about the role of and products and services offered by their affiliated entities and businesses. Overall, CRAs did not include these affiliated entities and businesses in the scope of their responses to the Questionnaires.

As also discussed in Chapter 1 – Executive Summary above, it appeared to Committee 6 from discussions with the CRAs and market participants that synergies exist between Regulated CRAs and their parent companies' affiliates, divisions and business combinations not subject to CRA regulations, and that ongoing communication, points of contact, and transferring knowledge and information takes place, including with regard to OCP - Outside the Rating Process. In addition, clients of Regulated CRAs who solicit and pay for Traditional Credit Ratings may also be clients of the Regulated CRAs' or their parent companies' affiliates, divisions or business combinations not subject to CRA regulations and purchase OCP - Outside the Rating Process. Some of these clients stated that they do not necessarily focus on whether a legal and corporate separation exists between the Regulated CRAs and their or their parent companies' affiliates, divisions or business combinations not subject to CRA regulations. When clients purchase OCP - Outside the Rating Process from the Regulated CRAs' or their or their parent companies' affiliates, divisions or business combinations not subject to CRA regulations, they may give more consideration to the brand that is common to both the Regulated CRA and their or their parent companies' affiliates, divisions or business combinations not subject to CRA regulations than to the fact that the OCP - Outside the Rating Process is issued by an entity that is legally or otherwise separate from the Regulated CRA.

#### **4.5.2 Application of the IOSCO CRA Principles and Code of Conduct**

CRAs do not consider that the definition of "credit rating" in the Code of Conduct applies to OCP - Outside the Rating Process. According to the CRAs, such products do not constitute credit ratings, are not generally issued in connection with a rated transaction, do not constitute a byproduct of the rating process relating to a rated transaction and, in most cases, are issued

by the affiliates, divisions or business combinations of the Regulated CRAs or of the Regulated CRAs' parent companies not subject to CRA regulations, as discussed above.

One larger CRA, however, pointed out that CRA personnel working on OCP - Outside the Rating Process are annually required to affirm their compliance with the CRA's code of conduct.

#### **4.6 OCP - Hybrids: Overview**

In this Final Report, "OCP - Hybrids" are described as products and services offered by CRAs which have several features that are similar to a Traditional Credit Rating. In particular, the processes CRAs follow in determining OCP - Hybrids are similar, if not identical, to the processes CRAs follow in determining Traditional Credit Ratings including, for example, maintaining a rating file and utilizing a lead analyst and a rating committee to make determinations. However, OCP - Hybrids differ significantly from Traditional Credit Ratings in that they are not issued on debt or issuers of debt. Unlike a Traditional Credit Rating, an OCP - Hybrid does not assess the creditworthiness of an obligation or the ability of an issuer to repay its debt. OCP - Hybrids, instead, are issued on financial instruments that represent ownership interests in certain entities.

Larger CRAs offer different types of OCP - Hybrids and refer to these products by different names. Examples include the following: "Fund Credit Quality Ratings", "Principal Stability Fund Ratings", "Fund Volatility Ratings", "Canadian Fund Sensitivity Ratings", "Money Market Fund Ratings", "Taiwan Ratings Fund Credit Quality Ratings", "International Fund Quality Ratings" and "Fund Quality Ratings".

Many CRAs offer OCP - Hybrids that typically have the following key features:

- OCP - Hybrids assess the performance of shares issued by a fund by assessing the creditworthiness of the investments in the fund's portfolio as opposed to the creditworthiness of a fund itself. An investor purchases shares of the fund and the performance of those shares is tied to the performance of the underlying investments;
- according to the CRAs, OCP - Hybrids are used mainly by institutional investors;
- OCP - Hybrids are issued at the request of the issuer and in exchange for a fee paid to the CRA;
- OCP - Hybrids are publicly available, typically published on the CRA's website and the rating is expressed using either a different scale from that used to assign Traditional Credit Ratings or, if the same scale is used, then an identifier is attached to the rating to indicate the different nature of the assessment;
- analytical staff involved in the issuance of OCP - Hybrids may also participate in determining Traditional Credit Ratings;
- both public and confidential information is used to generate OCP - Hybrids. Analysts utilize information provided by the fund as well as a combination of other confidential and public information that may be in the CRA's possession;
- OCP - Hybrids follow specific methodologies that CRAs make publicly available on their websites; and
- the commercial names of OCP - Hybrids frequently include the word "rating".

#### **4.6.1 Application of the IOSCO CRA Principles and Code of Conduct**

CRAAs do not consider that the definition of “credit rating” in the Code of Conduct applies to OCP - Hybrids. According to the CRAAs, such products do not address the ability of an entity or issuer to repay its debt or the creditworthiness of an obligation. Nevertheless, CRAAs advised that they generally apply the Code of Conduct provisions to OCP - Hybrids.

**DESCRIPTIONS OF TERMS USED IN THIS REPORT**

“2008 Code” means the IOSCO Technical Committee, Code of Conduct Fundamentals for Credit Rating Agencies, dated May 2008, available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD271.pdf>.

“Assessments of Financial Instrument Participants” describes performance measurement expectations and methodologies for assessing servicers, trustees and originators.

“Assessments of Financial Assets” provide a quantitative analysis of how the assets forming the collateral that supports payments on a rated financial instrument perform or could perform under certain economic scenarios. In other cases, they describe models offered by CRAs to monitor the performance of the assets underlying a rated structured finance instrument.

“Code of Conduct” means the IOSCO Technical Committee, Code of Conduct Fundamentals for Credit Rating Agencies, revised March 2015, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD482.pdf>

“Committee 6” means IOSCO Committee 6 on Credit Rating Agencies.

“Consultation Report” means the consultation report on Other CRA Products, prepared by IOSCO Committee 6 on Credit Rating Agencies and dated November 2016.

“Final Report” means the Final Report on Other CRA Products, prepared by IOSCO Committee 6 on Credit Rating Agencies and dated [\_\_\_\_\_].

“CRA Task Force” means the IOSCO Chairman’s Task Force on Credit Rating Agencies, the predecessor to Committee 6.

“CRAs” means credit rating agencies and their affiliates, partnerships, joint ventures and other business combinations, whether or not these affiliates and other entities and associations are directly or indirectly involved in developing Traditional Credit Ratings and whether or not they are regulated in the jurisdictions where they conduct business.

“First Questionnaire” means the first questionnaire on Other CRA Products, published by IOSCO on February 4, 2015.

“IOSCO CRA Principles” means the IOSCO Technical Committee, Statement of Principles Regarding the Activities of Credit Rating Agencies, dated September 2003 and available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD151.pdf>.

“IOSCO” means the Board of the International Organization of Securities Commissions.

“MTN” means medium term note.

“Non-Final OCP” describes a product or service offered by a CRA which:

- provides a preliminary or initial assessment of the creditworthiness of an entity or obligation in respect of an existing, proposed or hypothetical financial instrument;

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- is an assessment that is preliminary or initial because either the information available to the CRA is not complete or because the issuer or arranger has not requested the CRA to issue a complete or final Traditional Credit Rating;
- typically uses the same established and defined rating symbology as it would for a final, Traditional Credit Rating (although a CRA may use a prefix or suffix to denote that the assessment differs from a Traditional Credit Rating); and
- provides a preliminary or initial assessment that is not a final Traditional Credit Rating, but may be converted into (or replaced with) a final Traditional Credit Rating if certain conditions are met.

“Non-SF Financial Instrument” describes any financial instrument other than a structured finance instrument.

“Non-SF Hypothetical Assessments” describes Non-Final OCPs for hypothetical Non-SF Financial Instruments and for issuers of hypothetical Non-SF Financial Instruments.

“Non-SF Preliminary Assessments” describes Non-Final OCPs for proposed Non-SF Financial Instruments and for issuers of proposed Non-SF Financial Instruments.

“OCP” or “Other CRA Products” means certain non-traditional, credit-related products and services. Examples of these include: “private ratings”, “confidential ratings”, “expected ratings”, “indicative ratings”, “prospective ratings”, “provisional ratings”, “preliminary ratings”, “one-time ratings”, “regional scale ratings”, “national scale ratings”, “point-in-time ratings”, “scores”, “credit default swap spreads”, “bond indices”, “portfolio assessment tools”, “credit assessments”, “rating assessments”, “evaluations”, “fund ratings”, “data feeds”, “research” and other tools.

“OCP - Hybrid” describes products and services offered by CRAs which have several features that are similar to a Traditional Credit Rating. An OCP Hybrid does not assess the creditworthiness of an obligation or the ability of the issuer to repay its debt. OCP Hybrids, instead, are issued on financial instruments that represent ownership interests in certain entities.

“OCP - Outside the Rating Process” describes products and services offered by CRAs in which the CRA provides information or assessments on the following: (i) issuers and their financial instruments; (ii) sectors of the financial industry; and (iii) market participants in general.

“OCP - Part of the Rating Process” describes products and services issued by a CRA to provide an assessment of a party or function that plays a key role affecting the performance and credit quality of a rated financial instrument (for example, assessing the quality of an originator or a servicer as part of determining a rating on a structured finance instrument), or to assess or monitor the performance of certain assets constituting the collateral of a rated financial instrument:

- to be used as an input in the process of determining a Traditional Credit Rating;
- that can be used to provide additional information to users of Traditional Credit Ratings on a discrete aspect of a rated transaction or issuer; and
- that usually do not convert into a Traditional Credit Rating.

“OCP - Research” describes a product or service offered by a CRA, which:

- contains information or opinions about an issuer of financial instruments, a financial instrument or an industry sector;

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- is disseminated to users through a website and/or a subscription service; and
- does not assess issuers of financial instruments or the relevant financial instruments using an established or defined ranking system of rating categories.

“P3” means a public-private partnership.

“Private - OCP” describes a Traditional Credit Rating offered by a CRA with the exception that a Private - OCP is typically made available only to a restricted and controlled number of recipients.

“Quasi - Traditional Credit Rating” describes an assessment of the creditworthiness of a financial instrument similar to a Traditional Credit Rating, but with at least one of the following differences:

- they are assigned solely at the request of a party other than the issuer of the financial instrument;
- typically, they are confidential; and
- they are based on an abbreviated analysis and without applying the entire methodology that would otherwise be applied to determine a Traditional Credit Rating.

“Questionnaires” means the First Questionnaire and the Second Questionnaire.

“Regulated CRA” means a CRA whose activities are subject to the supervision, oversight and/or authorization by or registration with regulatory or other government authorities.

“Report” means the Final Report on Other CRA Products, prepared by IOSCO Committee 6 on Credit Rating Agencies and dated [\_\_\_\_\_].

“RFP” means a request for proposals issued by a public sector authority setting out the conditions and specifications required to undertake a P3 project.

“RFQ” means request for qualifications issued by a public sector authority inviting bidders from the private sector to provide information and demonstrate proven abilities in a number of areas, including their ability to finance the P3 project during the construction phase.

“Second Questionnaire” means the second questionnaire on Other CRA Products, published by IOSCO on June 30, 2015.

“SF Hypothetical Assessments” describes Non-Final OCPs for hypothetical structured finance instruments and for issuers of hypothetical structured finance instruments.

“SF Preliminary Assessments” describes Non-Final OCPs for proposed structured finance instruments and for issuers of proposed structured finance instruments.

“SPV” means special purpose vehicle.

“Traditional Credit Ratings” means credit ratings that are assessments of the creditworthiness of an entity or obligation, expressed using an established and defined rating scale and symbology. Traditional Credit Ratings are publicly disclosed or disseminated to subscribers.