

Inspection Results of Credit Rating Agencies

1. Background and Overview of Inspections of Credit Rating Agencies (“CRAs”)

As a result of a revision of the Financial Instruments and Exchange Act, the registration system of CRAs started in April 2010. Since September 2010, seven CRAs (of five groups) have been registered as CRAs.

In consideration of the important roles that CRAs play in capital and financial markets, the Securities and Exchange Surveillance Commission (“SESC”) has conducted a series of inspections of the CRAs since April 2011.

Since the first round of inspections for all the seven CRAs (of the five groups) was finished in February 2013, the SESC hereby summarizes and publishes the inspection results.

2. Outline of Inspection Results

As a result of the inspections of the CRAs, the SESC notified each CRA of its problems and also made a recommendation for administrative action for one CRA.

Especially, the inadequacy of operational management systems was the most frequently identified and acknowledged at almost all the CRAs. For example, CRAs did not take proper measures for handling complaints and preventing conflicts of interest.

Major Findings:

- 1) Inadequate monitoring of credit ratings (in the recommendation case);
- 2) Errors in disclosing ratings (in the recommendation case);
- 3) Inadequate operational management systems;
- 4) Inappropriate publication of rating methodologies; and
- 5) Inadequate preparation of statutory records and books.

[* Major Findings of Inspections of Credit Rating Agencies \(Link\)](#)

3. Policy Proposals

In the inspections, there was a case in which a CRA mistakenly disclosed credit ratings different from its own ratings decisions. However, the current laws and regulations do not directly prescribe the obligation of CRAs to ensure accuracy in disclosing credit ratings.

Therefore, the SESC submitted to the Prime Minister and the Commissioner of the Financial Services Agency a policy proposal to establish a statute of directly prescribing the obligation of CRAs to ensure accuracy in disclosing credit ratings.

[* Ensuring Accuracy when Providing Credit Ratings or Making Available to the Public \(Link\)](#)

Note: To ensure market integrity and protect investors, where necessary, the SESC can submit statutory authoritative proposals to the Prime Minister and the Commissioner of the FSA, based on the result of the inspections.

4. Conclusion

Credit ratings are widely used in capital and financial markets, and significantly influence investors' decisions. In view of this, it is important to take proper measures to ensure that CRAs recognize their important role as a part of information infrastructure in the markets and to ensure that their credit ratings do not distort investors' decisions.

In consideration of the important role of CRAs, the SESC continuously commits itself to conduct effective inspections in close collaboration not only with the Financial Services Agency but also with supervisory authorities in the US and European countries, to encourage that CRAs operate their business in an appropriate manner.