

Introduction of Regulation for CRAs

Regulation/Supervision for CRAs

(Register CRAs with established control systems)

[Overview of Regulation]

Duty of good faith

Conduct operations with fairness and integrity as independent entities

Establishment of control systems

Quality control and fairness in the rating process, and prevention of conflicts of interest, etc.

Prohibited Acts

- ▶ Prohibit ratings in the case where CRAs have a close relationship with the issuers of the financial instruments to be rated, etc.
- ▶ Prohibit ratings in the case where CRAs give advice to a rating stakeholder on matters that may materially affect the credit ratings, etc.
- ▶ Prohibit any acts resulting in insufficient protection of investors or loss of investor confidence in the credit rating business

Information Disclosure

- ▶ Timely disclosure: publish rating policies, etc.
- ▶ Periodic disclosure: public disclosure of explanation documents

*Inspection/Supervision, etc.

Submission of periodic business reports, supervisory order for production of reports and on-site inspection, order to improve business operations, etc.

Financial Instruments Business Operators' obligation to explain

(in soliciting customers to enter into contracts for financial instruments transactions)

Financial instruments business operators shall not use ratings provided by unregistered CRAs without informing of:

1. the fact that ratings are provided by unregistered CRAs
2. items specified in cabinet office ordinance

- ▶ Summary of the policy and methodology for a determination of ratings
- ▶ Assumptions, significance and limitations of ratings

[Summary of the Cabinet Office Ordinance]

[Requirements for establishment of control systems]

Quality control of the rating process

- 1) Securing sufficient staff with expertise and skills, 2) Ensuring the quality of information to be used for ratings, 3) Reviewing and updating determined credit ratings, etc.

Ensuring of independence and fairness

Requiring ratings to be determined by the rating committee and the committee members to be rotated, etc.

Prevention of conflicts of interest

- 1) Specify acts with conflicts of interest, prevent them and publish measures to prevent them,
- 2) review the past credit ratings of an entity determined by an analyst who become employed at that entity, etc.

*Additional requirements include: compliance with laws and regulations, management and maintenance of information confidentiality, responding to complaints, compliance with rating policies, etc. and establishment of a supervisory committee, etc.

- ▶ Prohibit acts by the CRA's staff in charge of the credit rating to receive, request delivery of, or accept an offer of money or goods from rating stakeholders in the rating process

[Determination]

Credit rating determination policies, etc.

[Requirements]

- ▶ Comprehensive judgment based on all the collected information and materials
- ▶ Check factual errors with issuers, etc. in advance of provision etc.

Explanatory documents

- ▶ information related to the history and statistics of the determined credit ratings
- ▶ status of the development of operational control systems

[Provision]

Credit rating provision policies, etc.

[Requirements]

- ▶ General provision of determined credit ratings without delay
- ▶ Items to be published in credit rating provision: Summary of the adopted credit rating determination policies, etc. and assumptions, significance and limitations of credit ratings, etc.

(making them available to the public every year)

Investors

Ensuring of regulatory consistency with the US and Europe

IOSCO Code of Conduct