

# Summary of the “Guidelines for Supervision of Credit Rating Agencies”

## Basic concept

- Aims to ensure appropriate business operations of credit rating agencies, and to bring about appropriate exercise of their functions
- Care is needed to avoid a mechanical and uniform application
- As stipulated in Cabinet Office Ordinance, be careful not to get involved in any “individual credit ratings” or in the “specific details of how credit is assessed”

## Main supervisory evaluation points and various administrative procedures

### Obligation to develop systems

Whether action policies and processes have been established in the internal rules for each of the development obligations clarified in the Cabinet Office Ordinance, and whether appropriate action is being taken in line with those policies and processes.  
Whether the credit rating agency examines the validity and effectiveness of these policies and processes, and makes revisions as necessary.

Cabinet Office Ordinance permits joint development of systems with registered business operators within the group.

Keep in mind that systems development cannot be assigned to “unregistered business operators” within a group.  
(For example: groups where a base in Japan is registered, but the US head office is not registered.)

“Non-Japan-related ratings” determined at an overseas location by a foreign corporation are not covered by the FIEA.

Whether a registered business operator that is a foreign corporation has established procedures for specifying “Japan-related ratings.”  
Whether it specifies and clarifies “Japan-related ratings” in accordance with these procedures.

\* Non-Japan-related rating: A credit rating which is not a rating of a financial instrument premised on solicitation by a securities company or so forth in Japan, and regarding which the issuer of the said financial instrument is not located in Japan.

### Prohibited acts

Whether the credit rating agency has developed systems whereby it can confirm, when necessary, that it does not contravene any prohibited acts prescribed in the FIEA or Cabinet Office Ordinance.

Cases where a credit rating determined by an “unregistered business operator” within the group is made to appear as though it was determined by one’s own company  
→ Could fall under the category of “name lending”.

For a credit rating in which an “unregistered business operator” within the group is involved, in such cases as where a registered business operator approves the credit rating after having examined the appropriateness of business operations and confirming that there are no problems:  
→ Keep in mind that it could be found that “the registered business operator determined the credit rating.”  
(For example: a credit rating in which there is involvement by a foreign unregistered base belonging to a group containing a registered business operator)

### Various administrative procedures

During an examination for registration, check whether the operational control systems of the registration applicant is appropriate and suited to the characteristics, etc. of its business.

In cases where a foreign corporation is to be registered:  
→ It is obligated to establish a base in Japan

With registered business operators that are a foreign corporation, keep in mind that the officers and employees stationed in Japan need to be able to grasp the business situation and explain it properly.

Under the Cabinet Office Ordinance, a registered business operator that is a foreign corporation may, with the approval of the authorities, be excluded from the application of some of the obligations to develop systems

When giving a registered business operator that is a foreign corporation “approval for exclusion from application,” be mindful of the following, for instance:  
[Cases of exclusion from the application of the “rotation rule”]  
• Whether the applicant has built the rating processes properly.  
• Whether the applicant has taken measures for preventing the entrenchment of persons in charge of rating.

# (Reference) Summary of Credit Rating Agency Regulations

## Revised Financial Instruments and Exchange Act (passed in June 2009)

### Introduction of a registration system

Introduce a system whereby credit rating agencies that satisfy certain conditions (development of appropriate systems, etc.) can be registered

\* In cases where foreign corporations are registered  
→ Obligation to establish base in Japan

In cases where securities companies, etc. conduct solicitation using a credit rating determined by an unregistered business operator, require them to explain that the “rating is a rating of an unregistered business operator,” etc.

### Main regulations for registered business operators (credit rating agencies)

#### Duty of good faith

#### Duty to develop systems

#### Prohibited acts

#### Duty to disclose information

- Quality control in the rating process, etc.
- Prohibition of name lending
- Prohibition of the provision of ratings to closely related persons
- Prohibition of the concurrent provision of rating and consulting services, etc.
- Timely disclosure of information (rating determination policy, etc.)
- Periodic disclosure of information (explanatory documents, etc.)

\* Also provision of powers for the authorities to order the submission of reports, conduct on-site inspections and take administrative action.

## Revised Cabinet Office Ordinance (promulgated in December 2009)

### Main subclasses of the obligations for systems development

#### Quality control in the rating process

- Secure personnel who have expert knowledge and skills
- Ensure the quality of information used in credit rating activities
- Examine the validity and effectiveness of rating determination policy, etc.
- Monitor determined ratings, etc.

#### Rotation rule

- Regular rotation of credit rating analysts, etc.

#### Supervisory committee

- Establishment of a consultative body which includes outside persons  
(→ Ensure observance of the duty to develop systems)

#### Legal compliance

\* Joint development of systems with other registered business operators within the group is also permitted.

\* Special case of a registered business operator that is a foreign corporation

In cases where sufficient systems have been developed at a foreign base under local law, it may be excluded from application of the “rotation rule” and “establishment of a supervisory committee,” etc.  
(case-by-case approval by the authorities)

### Accommodation provision

Authorities to be careful not to get involved in any “individual credit ratings” or in the “specific details of how credit is assessed.”

© The revised Financial Instruments and Exchange Act will come into force on April 1, 2010. (However, the accountability of securities companies, etc. will come into force on October 1, 2010.)