

**Thematic Review on FSB Principles for Reducing Reliance on
Credit Rating Agency Ratings**

Interim Report

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Thematic Review on FSB Principles for Reducing Reliance on Credit Rating Agency Ratings

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Foreword

Financial Stability Board (FSB) member jurisdictions have committed, under the FSB Charter and in the *FSB Framework for Strengthening Adherence to International Standards*,¹ to undergo periodic peer reviews. To fulfil this responsibility, the FSB has established a regular programme of country and thematic peer reviews of its member jurisdictions.

Thematic reviews focus on the implementation and effectiveness across the FSB membership of international financial standards developed by standard-setting bodies and policies agreed within the FSB in a particular area important for global financial stability. Thematic reviews may also analyse other areas important for global financial stability where international standards or policies do not yet exist. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation; to evaluate (where possible) the extent to which standards and policies have had their intended results; and to identify gaps and weaknesses in reviewed areas and to make recommendations for potential follow-up (including via the development of new standards) by FSB members.

This interim report describes the findings of the first stage of the peer review of FSB member jurisdictions' actions to implement the FSB *Principles for Reducing Reliance on Credit Rating Agency Ratings*, including the key elements of the discussion in the FSB Standing Committee on Standards Implementation. The draft report for discussion was prepared by a team chaired by Thomas J. Butler (US Securities and Exchange Commission), comprising Alice Alphandary (Bank of England), Philippe Caluwaerts (European Commission), Roland Cooper (Financial Services Board, South Africa), Nicoletta Giusto (CONSOB, Italy), Gao Ming (People's Bank of China), Olivier Toutain (Banque de France), Gennady Vasiliev (Ministry of Finance, Russia), Lorie Zorn (Bank of Canada) and David Finnis (International Association of Insurance Supervisors). Michael Taylor and Tarun Singh (FSB Secretariat) provided support to the team and contributed to the preparation of the report.

¹ See http://www.financialstabilityboard.org/publications/r_100109a.pdf.

Glossary

ABCP	Asset-backed Commercial Paper
ABS	Asset-backed Securities
BCBS	Basel Committee on Banking Supervision
CCP	Central Counterparty
CFTC	Commodities Futures Trading Commission
CRAs	Credit Rating Agencies
CRA III	Regulation (EU) No 462/2013 of the European Parliament and of the Council of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (“Capital Requirements Directive IV”)
DFA	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”)
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (“European Market Infrastructure Regulation”)
ESMA	European Securities and Markets Authority
EU	European Union
FRB	Federal Reserve Board
HQLA	High Quality Liquid Assets
NAIC	National Association of Insurance Commissioners
NBFIs	Non-Bank Financial Institutions
NPR	Notice of Proposed Rule Making
OCC	Office of the Comptroller of the Currency
RMBS	Residential Mortgage-Backed Securities
SEC	Securities and Exchange Commission
SSBs	Standard Setting Bodies
TFSA	Task Force on the Standardised Approaches (BCBS)
UK	United Kingdom
US	United States of America

Executive Summary

Background

In October 2012, the FSB published a roadmap with timelines to accelerate implementation of the FSB *Principles for Reducing Reliance on Credit Rating Agency (CRA) Ratings*. The roadmap consists of two tracks: work to reduce mechanistic reliance on CRA ratings through standards, laws and regulations; and work to promote and, where needed, require financial institutions to strengthen their own credit risk assessment processes as a replacement for reliance on CRA ratings, and disclose information on those processes.

In order to support the agreed roadmap, the FSB decided to undertake a thematic peer review, whose main objective is to assist national authorities in fulfilling their commitments under the roadmap. The review focuses on those aspects of the Principles that are directly addressed to the official sector and it is structured in two stages, the first of which – described in this report – comprises a structured stocktaking of references to CRA ratings in national authorities’ laws and regulations and of actions taken and underway to reduce these references. The FSB intends to issue the final peer review report in early 2014.

Main findings

Work is still ongoing by most FSB jurisdictions and across different financial sectors to implement the FSB Principles. Progress has been greatest in the identification and removal of “hard-wired” references to CRA ratings in domestic laws and regulations (Principle I). Jurisdictions have faced different starting positions from which to make reforms. Some FSB member jurisdictions report that there were relatively few references to CRA ratings in their domestic laws and regulations even prior to the adoption of the Principles, whereas in others the process of identification and removal has required extensive changes to laws and regulations. There has been some variation among jurisdictions and across activities and sectors in the progress made, partly but not solely reflecting their different starting points.

Greatest progress in the removal of hard-wiring has been made in the United States through implementation of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (DFA). Indeed, this legislation goes further and sets a more absolute standard than the FSB Principles, as it requires the complete removal of CRA ratings and their substitution by other standards of creditworthiness as may be determined appropriate. Significant progress has also been made in the European Union (EU), where the European Commission (EC) completed a stock-taking following the publication of the FSB Principles. This resulted in a regulatory package with measures to reduce reliance on ratings, which entered into force in June 2013. The package covers an amended CRA Regulation (CRA III) setting out rules based on a general principle to reduce over-reliance on credit ratings. Most other FSB jurisdictions report that they have undertaken a stock-taking exercise and removed references to CRA ratings where it has been feasible to do so. However, a small number of members have not yet completed such an exercise, and they should aim to do so promptly.

With respect to the use of CRA ratings by FSB member central banks (Principle III.1), most report that they have either taken or intend to take measures to reduce mechanistic reliance on CRA ratings. The majority state that they have policies and practices in place in one or more

areas of their activities (e.g. foreign reserve management or market operations) that are in line with the FSB Principles, and that they have enhanced their capacity to undertake internal credit risk assessments or are looking into ways to enhance those capabilities.

At present, CRA ratings continue to play a significant role in setting bank capital adequacy requirements (Principle III.2). Most national supervisory authorities report that their use of ratings in this area is based on international standards (the Basel capital framework). The Basel Committee is studying the issue as part of its work on the review of the standardised approach and will provide policy recommendations by mid-2014, in accordance with the CRA roadmap. The Basel Committee is also refining the framework for securitisation, which makes extensive use of CRA ratings, with a view to ensuring any new framework is less reliant on them. However, reliance on CRA ratings can only be reduced once alternative methods of measuring creditworthiness have been identified and agreed upon as being effective and appropriate for global standards. As noted elsewhere in this report, the identification of these alternative methods remains challenging across all financial sectors.

The use of CRA ratings appears to be less of an issue in the prudential supervision of non-bank financial institutions (NBFIs) with insurance supervisors, for example, reporting relatively few references to CRA ratings in their rules and regulations. As risk-sensitive approaches to international standards for the prudential supervision of NBFIs are still in some cases at an early stage of development, it will be important to avoid creating mechanistic reliance on CRA ratings as part of the further formulation of these standards.

Progress has been observed on the extent to which investment managers and institutional investors rely on CRA ratings (Principle III.3c). Several FSB jurisdictions have introduced a requirement for investment funds managers to conduct their own credit risk assessment or due diligence before investing in certain assets. However, further progress may be constrained by the absence of an agreed standard on due diligence requirements. In addition, reliance may also occur through the limits imposed by clients' investment guidelines.

Most FSB members report that they have already removed references to CRA ratings in the legislation governing central counterparty (CCP) operations, or are in the process of removing such references (Principle III.4a). The process of identifying practical alternatives to CRA ratings for CCP collateral management purposes is ongoing and may require a substantial period of time before finalisation and implementation.

Few FSB member jurisdictions report that references to CRA ratings played any significant role in their disclosure requirements for the issuers of securities even prior to the adoption of the Principles (Principle III.5a).

The greatest additional effort is required in achieving the second of the objectives contained in the Principles, namely for financial firms to develop their own internal credit risk assessment capabilities (Principle II). Authorities should create appropriate incentives for firms to develop these capabilities. Progress in achieving this second objective is constrained by a number of factors and in particular the current lack of credible alternative standards of creditworthiness that could substitute for CRA ratings. Many FSB jurisdictions report this as one of the main constraints on their ability to take additional steps to implement the Principles, alongside the role that CRA ratings play in international standards. In that regard, additional guidance by standard-setting bodies on how national authorities can reduce reliance

on CRA ratings would assist in sharing ideas and experiences internationally and in achieving consistent implementation of the Principles.

Finally, national authorities agreed under the roadmap to identify and prioritise areas for change and publicly disclose action plans. All FSB jurisdictions should develop such plans for publication in accordance with the commitment made under the roadmap. These plans are an important input to the second stage of the peer review. They could take the form of a high level listing of steps that they intend to take to implement the Principles, including the factors that would enable them to complete their implementation.

Recommendations

Recommendation 1: Those few FSB jurisdictions that have not yet completed a stock-taking exercise of the use of CRA ratings should do so by end-September 2013. The stock-taking exercise provides a comprehensive, analytical basis for determining whether additional action is required under the Principles to remove hard-wiring and to create appropriate incentives. (Section 2.1)

Recommendation 2: FSB jurisdictions should provide incentives for market participants to develop their own independent credit assessment processes. Examples of these incentives might include disclosure requirements relating to credit risk assessment practices or articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions. (Section 2.2)

Recommendation 3: All FSB jurisdictions, drawing on guidance from the relevant standard-setting bodies where available, should encourage or continue to enhance disclosures on financial institutions' internal credit risk assessment practices. (Section 2.2)

Recommendation 4: National authorities agreed under the CRAs roadmap to identify and prioritise areas for change and publicly disclose action plans. All FSB jurisdictions should develop such plans for publication in accordance with their roadmap commitment to do so by mid-2013. These plans are an important input to the second stage of the peer review. (Section 2.2)

Recommendation 5: In developing their action plans, FSB jurisdictions should consider articulating a high-level listing of steps that they intend to take to implement the Principles, including the factors that would enable them to complete their implementation. Jurisdictions should also, wherever possible, set explicit deadlines for implementation of the elements of their action plan, even if some deadlines remain some way in the future, so as to ensure that the momentum towards the elimination of "hard-wiring" of ratings is maintained (Section 2.2)

Recommendation 6: Additional guidance by standard-setting bodies on how national authorities can reduce reliance on CRA ratings would assist in sharing ideas and experiences internationally and achieving consistent implementation of the Principles. The standard setting bodies should provide guidance to their members on steps to further discourage reliance on CRA ratings in accordance with the timetable set forth in the roadmap. (Section 2.3)

1. Introduction

1.1 Background

In October 2010, the FSB issued *Principles for Reducing Reliance on CRA Ratings* (see Annex A).² The goal of the Principles is to end mechanistic reliance on credit rating agency (CRA) ratings by banks, institutional investors and other market participants. The “hard wiring” of CRA ratings in regulation has been wrongly interpreted as providing those ratings with an official “seal of approval” and has reduced incentives for firms to develop their own capacity for credit risk assessment and due diligence. As demonstrated during the financial crisis, reliance on external ratings to the exclusion of internal credit assessments can be a cause of herding behaviour and of abrupt sell-offs of securities when they are downgraded (“cliff effects”). These effects can amplify procyclicality and cause systemic disruption.

During 2012, both the G20 Leaders in their Los Cabos Declaration and the G20 Finance Ministers and Central Bank Governors called for faster progress by national authorities and standard-setting bodies (SSBs) in ending mechanistic reliance on credit ratings. In response to this call, the FSB published a roadmap³ in October 2012 with timelines to accelerate implementation of the FSB Principles (see Annex B), which was welcomed by G20 Finance Ministers and Central Bank Governors in their November 2012 meeting.

The roadmap consists of two tracks:

- Work to reduce mechanistic reliance on CRA ratings through standards, laws and regulations. Reviews should cover the identification and reduction of references to CRA ratings in standards, laws and regulations. The reviews should also identify whether, even absent such references to CRA ratings, sufficient steps are being taken in standards, laws and regulations to actively place a duty or expectation on market participants that they will not mechanistically rely on CRA ratings;
- Work to promote and, where needed, require financial institutions to strengthen their own credit risk assessment processes as a replacement for reliance on CRA ratings, and disclose information on those processes.

These two tracks need to progress in parallel, since changes in rules are needed to provide the incentive for market participants to develop their own credit risk assessments, while at the same time mechanistic reliance can only be safely ended if market participants have developed such assessment capacity. As recognised by the roadmap, the removal of “hard wired” references to CRA ratings in standards, laws and regulations is a necessary precondition for incentivising market participants to develop their own credit risk assessment capabilities. In addition, the official sector can consider incentivising and encouraging the private sector to reduce mechanistic reliance on CRA ratings through a variety of means, including the supervisory review of credit risk assessment practices, the promotion of good industry practices outside the supervisory process, and via leading by example (e.g. through enhanced disclosures of credit risk management practices of the official sector). The roadmap

² See http://www.financialstabilityboard.org/publications/r_101027.pdf.

³ See http://www.financialstabilityboard.org/publications/r_121105b.pdf.

is therefore designed with such a parallel process to incentivise change and at the same time allow time for adjustment.

1.2 Objectives and scope of the review

In order to support the agreed CRAs roadmap, the FSB decided to undertake a thematic peer review, whose main objective is to assist national authorities in fulfilling their commitments under the roadmap. The aim of the review is to accelerate progress in reducing mechanistic reliance on CRA ratings by facilitating the sharing among national authorities of experiences and effective practices, including by encouraging market participants to develop and implement adequate credit assessment processes.

Although the Principles are addressed to national authorities, SSBs, and market participants, the focus of the peer review is on those aspects of the Principles that are directly addressed to the official sector – namely, the removal (where possible) of references to CRA ratings in laws and regulations; and the creation of incentives for the private sector to develop its own credit assessment processes. In particular, the review focuses on the following Principles that relate to regulatory and supervisory practices or the official sector more broadly (see the highlighted elements of the relevant Principles in Annex A):

- Principle I (reducing reliance by authorities on CRA ratings in laws and regulations);
- Principle II (design of regulations and other official sector actions to support reducing market reliance on CRAs);
- Principle III.1 (central bank operations);
- Principle III.2, including 2a (prudential supervision of banks);
- Principle III.3.c (regulation of investment managers and institutional investors);
- Principle III.4.a (supervisory review of margining policies); and
- Principles III.5.a (disclosure requirements for issuers of securities).

The peer review covers the application of the above Principles for the regulation and oversight of the relevant financial sectors (i.e. banking, securities issuance, insurance, investment/pension fund management, central counterparties). The current credit risk management practices of private sector market participants do not form part of the review.

The review is structured in two stages, the first of which comprises a structured stocktaking of references to CRA ratings in national authorities' laws and regulations and of actions (being) taken to reduce these references. The present report contains this structured stock-taking exercise as well as summary observations of the state of progress across FSB jurisdictions, broad sectoral trends, and specific issues that remain to be addressed. The findings from this exercise and developments on the other elements of the CRA roadmap will feed into a progress report for the G20 Summit in September 2013. The FSB intends to issue the final peer review report in early 2014.

The primary source of information for the peer review has been the responses to a questionnaire by FSB member jurisdictions. The questionnaire was structured by sector and comprised questions on the actions taken (or considered) by authorities to reduce references to CRA ratings in laws and regulations (Principle I) and the measures taken (or considered) to

incentivise and encourage private sector participants to develop their own credit risk assessment capacity (the relevant elements of Principles II and III). Jurisdictions' responses to the questionnaire, as amended based on additional information received in response to follow-up discussions with the peer review team, are presented in the form of a series of comparative tables included as Annexes C1-6 of this report.

2. Overview of implementation by national authorities

2.1 Progress made in implementing the Principles

As noted above, both the Principles and the roadmap adopt a dual-track approach, in which the removal of the hard-wiring of references to CRA ratings in standards, laws and regulations is to be accompanied by providing incentives to the private sector to develop its own internal credit risk assessment processes. It is on the first of these tracks – the removal of hard-wiring – that greatest progress has been made by FSB jurisdictions in implementing the Principles.

Significant progress has been observed in the completion of the stock-taking exercises that are an essential precondition for the removal of hard-wired references to CRA ratings in laws and regulations. Almost all FSB jurisdictions report having conducted a stock-taking exercise. An example in this respect was the initiative by **Brazil**, which involved assessments carried out by high level committees that brought together regulatory bodies for the banking, insurance, securities and pensions sectors. In the cases of **Japan** and the **United States**, stock-takings were conducted in advance and independently of the Principles. In some cases,⁴ these stock-taking exercises were updated following publication of the CRAs roadmap last November. In several other cases, however, the initial stock-taking exercise led authorities to conclude that there were limited references to CRA ratings in their rules and regulations and therefore that an update was not required following publication of the roadmap.⁵

Nonetheless, a few FSB jurisdictions report that they have not yet conducted a stock-taking exercise across all financial sectors.⁶ **The peer review recommends that those few FSB jurisdictions that have not yet completed a stock-taking exercise of the use of CRA ratings should do so by end-September 2013, in order to provide a comprehensive, analytical basis for determining whether additional action is required under the Principles to remove hard-wiring and to create appropriate incentives.**

The **United States** (US) has moved the furthest in removing references to CRA ratings from law or regulation. This initiative has been the consequence of section 939A of the Dodd-Frank Act, which requires federal regulatory agencies to remove from their regulations any references to, or requirements of reliance on, credit ratings in assessments of creditworthiness and to substitute in those regulations other standards of creditworthiness that the agencies determine to be appropriate. Indeed, this legislation goes further and sets a more absolute

⁴ Brazil, Canada, Germany, Singapore and, specifically for asset managers, France.

⁵ Hong Kong, Saudi Arabia, United Kingdom (UK).

⁶ China, Indonesia, Korea.

standard than the Principles, as it requires the complete removal and replacement of CRA ratings as may be determined appropriate.⁷

Implementation of section 939A of the DFA is an on-going process for US supervisory and regulatory agencies.⁸ Agency reviews were carried out within one year after the date of the enactment of the DFA in July 2010. Currently, the US federal agencies are considering, have proposed, or have finalised rule changes to remove credit ratings from their regulations and to substitute alternative standards of creditworthiness: the detailed rule changes are discussed in the relevant Annexes to this report. In addition, although DFA mandates only federal agencies to make these rule changes, state insurance regulators have conducted the assessment and review of the appropriateness of reliance on CRA ratings pertaining to mortgage backed-securities, working through the National Association of Insurance Commissioners (NAIC). Although the assessment, review, and finalisation of proposed regulatory modifications of ratings is an on-going process, no further reviews of laws and regulations at the federal level are planned at this time.

A further example of stock-taking leading to a concerted effort to remove references to CRA ratings from law and regulations is provided by the **European Union (EU)**. Following publication of the FSB Principles, the European Commission (EC) undertook a wide-ranging mapping exercise in 2011 to identify references to ratings in EU financial services legislation and address mechanistic reliance on CRA ratings. The EC conducted a public consultation exercise, which was followed by an impact study that assessed the requirement to reduce reliance on ratings in line with the Principles. The assessment resulted in an EC proposal for a regulatory package with measures to reduce reliance on ratings, which was approved by the European Parliament and entered into force in June 2013. The package covers an amended CRA Regulation (CRA III) setting out rules based on a general principle to reduce over-reliance on credit ratings. CRA III is directly applicable in all EU member states.⁹

In particular, Article 5 b (1) of CRA III requires the European Supervisory Authorities (the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority or ESMA) not to refer to credit ratings in their guidelines, recommendations and draft technical standards where such references have the potential to trigger sole or mechanistic reliance on credit ratings by competent authorities, sectorial competent authorities, financial institutions and other financial market participants. Accordingly, they are required to review and remove where appropriate, by 31 December 2013, all references to credit ratings in existing guidelines and recommendations. Article 5c of CRA III further obliges the EC to continue reviewing references to credit ratings in EU law that trigger or have the potential to trigger sole or mechanistic reliance on credit ratings by competent authorities or financial market participants, with a view to eliminating all

⁷ The Principles focus particularly on those references to CRA ratings that lead to mechanistic responses by market participants, and call for the removal of references wherever possible, but only once alternative provisions have been identified that can be safely implemented.

⁸ These include the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the US Department of the Treasury.

⁹ The text of the CRA III Regulation (Regulation (EU) No 462/2013) can be found at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:146:0001:0033:EN:PDF>.

references to ratings in EU law by 1 January 2020, provided that appropriate alternatives to credit risk assessment have been identified and implemented.

Another important feature of the US and EU regulatory frameworks is their emphasis on increasing transparency to reduce investors' dependence on credit ratings and improve their ability to perform their own due diligence on a well-informed basis. For example, CRA III requires the issuer, the originator and the sponsor of a structured finance instrument established in the EU to jointly disclose to the public – through a centralized website operated by ESMA – specific information on structured finance products on an on-going basis. This includes information on the credit quality and performance of the underlying assets of the structured finance instrument, the structure of the securitisation transaction, the cash flows and any collateral supporting a securitisation exposure as well as any information that is necessary to conduct comprehensive and well informed stress tests on the cash flows and collateral values supporting the underlying exposures (Article 8b). ESMA is required to design a regulatory technical standard with regard to the on-going disclosure of information on structured finance instruments on a central website by ESMA.

Enhanced transparency for investors is also being motivated by several central banks in relation to amended eligibility criteria for the assets accepted as collateral in their market operations. For example, since March 2008 the Bank of Canada has required a single, concise, publicly-available document containing all relevant investment information in order to accept Asset Backed Commercial Paper (ABCP) for its Standing Liquidity Facility. The ECB also set out transparency requirements for Asset Backed Securities (ABS) eligible for eurosystem credit operations starting in September 2008, and enhanced these requirements to include loan-level data effective 2012 and in 2014. Similarly, transparency requirements have been introduced by the Bank of England (from 2011, for ABS and covered bonds) and the Reserve Bank of Australia (from 2015 for Residential Mortgage Backed Securities (RMBS)).

Central banks have also been at the forefront of official sector bodies leading by example in reducing their reliance on CRA ratings. The use of CRA ratings varies according to the type of central bank activity, with usage more prevalent in the management of foreign reserves. At the same time, in most central bank reserve management activities, CRA ratings are not used as the sole means for assessing credit risk for assets or counterparties. CRA ratings are often supplemented with other financial and market indicators of credit quality. Although a cross-jurisdiction comparison of CRA ratings in market operations and standing facilities is more difficult given the differences in monetary policy frameworks across central banks, it is noteworthy that a significant proportion of central banks do not use CRA ratings at all for certain market operations. This may be due to the fact that liquidity and/or market risk is their key consideration, or because only government or central bank securities are eligible. In some cases, CRA ratings are not used because central banks conduct their own internal assessment of credit risk, mainly in relation to non-marketable assets, such as bank loans.

Many FSB member central banks report that they have either already taken or intend to take measures to reduce mechanistic reliance on CRA ratings. The majority state that they have policies and practices in place in one or more areas of their activities that are in line with the

FSB Principles. Several central banks¹⁰ report that they have developed the capacity to undertake internal credit risk assessments or are looking into ways to enhance those capabilities. However, there remain a few member central banks¹¹ that report not having made, or actively pursuing, changes to their policies or activities to reduce mechanistic reliance on CRA ratings.

Finally, most FSB member jurisdictions report that references to CRA ratings played no significant role in their disclosure requirements for the issuers of securities even prior to the adoption of the Principles (Principle III.5a). Several members¹² report that most references that previously had been made in their laws and regulations have now been removed.

2.2 Areas where accelerated progress is needed

Despite the evidence of progress noted in the previous section, there remain several areas where national authorities need to accelerate their implementation of the Principles.

As noted above, the Principles aim to change the behaviour of market participants to ensure that they do not place automatic or mechanistic reliance on credit ratings. Although many FSB members report that there has been some change by market participants in their use of ratings in recent years, some of this may be due to post-crisis changes in market practices rather than the development of credit assessment capabilities per se. Changing market behaviour requires regulators to put in place a structure of incentives that encourages market participants to develop their own internal credit assessment capabilities – for example, by providing disclosure requirements relating to credit risk assessment practices or by articulating clear supervisory expectations of the extent to which firms should perform their own due diligence before making lending or investment decisions. Some jurisdictions¹³ have introduced new rules or guidelines to provide greater incentives for market participants to perform their own internal credit assessments; in the EU, the CRA III Regulation also introduces a general obligation for market participants to perform their own risk assessments.¹⁴ **Nonetheless, less progress has been made in providing incentives for market participants to develop their own independent credit assessment processes than in the removal of hard-wiring; the peer review recommends that FSB jurisdictions take steps to implement this aspect of the Principles.**

¹⁰ Argentina, Brazil, Canada, China, France, Germany, Hong Kong, Italy, Korea, Mexico, Singapore, South Africa, Spain, Turkey, UK.

¹¹ Indonesia, Saudi Arabia, Switzerland, US.

¹² Argentina, Japan, Russia, South Africa, US.

¹³ Australia (for insurers), Hong Kong, Indonesia, Mexico, Singapore.

¹⁴ Article 5a (1) of CRA III introduces a general obligation, directly applicable in EU member states, requiring all financial institutions to make their own risk assessment and not solely or mechanically rely on credit ratings for assessing the creditworthiness of an entity or financial instrument. In addition, article 5a (2) requires sectorial regulators taking into account the nature, scale and complexity of the institutions supervised, to monitor the adequacy of the supervised institutions' creditworthiness assessment process and assess the use of contractual references to credit ratings and, where appropriate, encourage to mitigate the impact of such references with a view to reducing sole and mechanistic reliance on credit ratings, in accordance with sectorial legislation.

An important means for creating incentives for independent credit assessment is the disclosure of information on firms' internal credit assessment processes. Some members¹⁵ report that they have enhanced the disclosure requirements that apply to internal credit assessment processes in consequence of their adoption of Pillar 3 of the Basel framework. In the EU, the new Capital Requirements Directive (CRD IV) also enhances the disclosure requirements for the internal rating based approaches. However, most FSB members do not report having taken additional measures to encourage greater disclosure of credit risk management practices by market participants. **The peer review recommends that all FSB jurisdictions, drawing on guidance from the relevant SSBs where available, should encourage or continue to enhance disclosures on financial institutions' internal credit risk assessment practices.**

Removing reliance on CRA ratings from national laws and regulations has also progressed albeit at a different pace across financial sectors. Some FSB member jurisdictions report that there were relatively few references to CRA ratings in their domestic laws and regulations even prior to the adoption of the Principles, whereas in others the process of identification and removal has required extensive changes to laws and regulations. Notwithstanding these different starting points, there has been some variation among jurisdictions and across activities and sectors in the progress made.

As discussed further in section 2.3, CRA ratings continue to play a significant role in setting bank capital adequacy requirements. Most national supervisory authorities report that their use of CRA ratings in this area is based on international standards set by the Basel Committee on Banking Supervision (BCBS). An important development in this regard has been the establishment in March 2013 of the BCBS Task Force on Standardised Approaches (TFSA) that will seek to reduce or remove, where possible, the reliance on external ratings, including developing supplementary measures for risk classification and encouraging stronger supervisory practices to promote alternative measures for risk assessment. It is anticipated that the TFSA will report in line with the mid-2014 milestone contained in the roadmap.

Pending the outcome of the BCBS work on reducing the role of CRA ratings in bank capital adequacy requirements, some FSB member jurisdictions have adopted their own initiatives. In the **United States**, implementation of the DFA requirements has resulted in the recent adoption of a number of changes to bank supervisory agencies' risk-based capital rules that remove references to ratings and replace them with alternative standards of creditworthiness.¹⁶ In the **EU**, the Capital Requirements Directive IV (CRD IV) that implements Basel III will offer incentives for banks to carry out their own credit risk assessment, subject to "supervisory benchmarking" to check the quality of the internal approaches, and institutions with material credit risk will be asked to develop and use internal ratings for calculating their capital requirements. However, these examples tend to reinforce the consideration that the reduction in references to CRA ratings cannot progress more rapidly than the development of alternative standards of creditworthiness that are at least as credible

¹⁵ China, Hong Kong, Italy, Saudi Arabia, Singapore, UK.

¹⁶ For example, the US standardised approach adopted in July 2013 includes alternatives to CRAs ratings based on the OECD Country Risk classification and a formula-based approach for securitisation, as well as the alternative standard for determining whether a security is "investment grade".

as those they seek to replace. In addition, it is necessary to distinguish between the development of alternative standards of creditworthiness for firms' own internal credit risk assessment purposes and the adoption of such standards for regulatory purposes. Firms should be encouraged to develop their own credit risk assessment systems for the purposes of making lending or investment decisions, but this need not necessarily imply that such systems should be adopted for supervisory purposes, e.g. as the basis of calculating capital requirements.

Prudential supervision of insurance companies has traditionally placed only minor reliance on CRA ratings, a feature that is also reflected in these firms' risk management systems. In consequence, insurance regulators have made relatively little use of CRA ratings in their rules and standards, although greater use is apparent in more informal documents such as circulars and guidance, and references to CRA ratings have been more frequently used in relation to non-traditional, non-insurance businesses, such as derivatives trading activities. Thus in contrast to the situation in the banking sector, only a relatively small number of jurisdictions¹⁷ have reported that they have needed to take steps to reduce reliance on CRA ratings in the prudential supervision of the insurance sector. Nonetheless, as international standards for the prudential supervision of NBFIs are still in some cases at an early stage of development, it will be important to avoid creating mechanistic reliance on CRA ratings as part of the further formulation of these standards.

References to credit ratings in law and regulation setting minimum capital requirements for securities firms have been identified in several member jurisdictions.¹⁸ **Australia, Hong Kong and Japan** expressly mentioned that such limited references to credit ratings do not result in or imply mechanistic reliance on credit ratings. In **Japan**, the capital adequacy rules have been amended, introducing a mechanism that requires banks to deduct the securitisation exposure wherever they do not perform the level of credit analysis specified, which will contribute to reducing reliance on CRA ratings.

With respect to funds management, several FSB jurisdictions¹⁹ have introduced a requirement for investment fund managers to conduct their own credit risk assessment or due diligence before investing in certain assets. However, this requirement does not specify how such an assessment should be conducted or on which alternative credit risk measures it should be based. Some jurisdictions²⁰ have introduced a documentation requirement for the credit risk assessment process that has to be provided to regulatory authorities. A number of jurisdictions²¹ report that the lack of agreed international standards has constrained their ability to develop requirements relating to due diligence and alternative standards of creditworthiness.

¹⁷ Examples include Argentina, Brazil, the UK and the US (through the NAIC).

¹⁸ Australia (even though they only refer to securities dealers who are participants of an exchange and are not deemed to have an impact on any current participants), Canada, Hong Kong (as one among several factors to be considered), Japan, Korea and Switzerland. In some cases (EU, Switzerland), the minimum capital requirements for securities firms and banks are the same, whereas in other jurisdictions (e.g. Australia, Canada, Hong Kong) they are different.

¹⁹ Brazil, EU, Hong Kong, South Africa.

²⁰ Italy, France.

²¹ Canada, Mexico, Korea, Japan, Russia.

Central counterparties (CCPs) in some FSB member jurisdictions will need to continue to place reliance on CRA ratings in their collateral management policies until amending legislation is reviewed and implemented. Most FSB members report that they have already removed references to CRA ratings in the legislation governing CCP operations, or are in the process of removing such references (e.g. the European Market Infrastructure Regulation (EMIR)).²² The process of identifying practical alternatives to CRA ratings for CCP collateral management purposes is on-going and may require a substantial period of time before finalisation and implementation.

Finally, while some FSB jurisdictions²³ report that action plans called for under the CRAs roadmap are completed or in the course of development, the majority of members indicate that their stock-taking exercises did not identify significant scope or urgency for further removal of references to CRA ratings at this stage. A number of members additionally note that they have not been able to come up with alternative provisions in laws and regulations that could be implemented safely, in accordance with Principle I. Nonetheless, for all EU member jurisdictions, CRA III's deadline of eliminating all references to ratings in EU law by 1 January 2020 (subject to the caveat that appropriate alternatives are available and have been implemented) is expected to provide a clear focus for further efforts to implement the Principles. **National authorities agreed under the CRAs roadmap to identify and prioritise areas for change and publicly disclose action plans. All FSB jurisdictions should develop such plans for publication in accordance with their roadmap commitments by mid-2013. These plans are an important input to the second stage of the peer review.**

In developing their action plans, FSB jurisdictions should consider articulating a high-level listing of steps that they intend to take to implement the Principles, including the factors that would enable them to complete their implementation. Jurisdictions should also, wherever possible, set explicit deadlines for implementation of the elements of their action plan, even if some deadlines remain some way in the future, so as to ensure that the momentum towards the elimination of “hard-wiring” of ratings is maintained. Development of the action plan should be informed by dialogue with the private sector on alternative measures of creditworthiness to CRA ratings.

2.3 Additional conditions for effective implementation

The responses by FSB member jurisdictions suggest that, despite instances where implementation of the FSB Principles appears to be lagging, the most straightforward aspects of the Principles have already been implemented. In this sense, the implementation of the Principles may be said to have reached something of a turning point, with further significant progress being contingent on a number of additional conditions being met.

²² EMIR specifies that creditworthiness assessment for the purpose of CCPs' investment and collateral policy should be based on a qualitative approach: *'in performing such assessment the CCP shall employ a defined and objective methodology that shall not fully rely on external opinions'*; Commission Delegated Regulation (EU) 153/2013 of 19 December 2012 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on requirements for central counterparties.

²³ Argentina, Brazil, Canada, EU, Japan, Russia.

First, it is clear that many national authorities believe that the continued reference to CRA ratings in international standards constrains their ability to reduce such references in domestic law and regulation. Several FSB jurisdictions²⁴ have observed that the remaining references to CRA ratings in their national laws and regulations are predominately the result of the role that ratings play in international standards, and that removing such references will require amendments to these standards (or, in the case of the EU, the Directives that these laws or regulations implement). In fact, some recent international policy initiatives appear to have increased, rather than reduced, the hard-wiring of CRA ratings or their substitutes – such as, for example, liquidity requirements under Basel III that link the definition of high quality liquid assets (HQLA) to risk weightings under the Standardised Approach and thus, indirectly, to CRA ratings.²⁵ The adoption of this approach despite attempts to identify suitable market-based alternatives further underlines the difficulty of identifying credible substitutes for the use of CRA ratings at this juncture.

Accelerated efforts by the SSBs in reviewing the role played by CRA ratings in their standards will, therefore, be essential if the Principles are to be fully implemented by national authorities ahead of the end-2015 deadline set forth in the roadmap. Additional guidance by standard-setting bodies on how national authorities can reduce reliance on CRA ratings would assist in sharing ideas and experiences internationally and in achieving consistent implementation of the Principles. **The standard setting bodies should provide guidance to their members on steps to further discourage reliance on CRA ratings in accordance with the timetable set forth in the roadmap.**

Second, further work is required to identify and develop alternative standards of creditworthiness while also taking into account the need to maintain international consistency. The Principles recognise that the identification of alternative standards of creditworthiness is an essential precondition for reducing reliance on CRA ratings, and many FSB jurisdictions mentioned that it was not feasible to remove some of the remaining references to CRA ratings absent the development of these alternative standards. Moreover, even if available, alternative measures of creditworthiness may not be able to substitute for CRA ratings across all the dimensions in which the latter are currently used. For example, credit ratings perform a useful public good role by providing a “common language” for all market participants to discuss and compare levels of risk. It is unlikely that alternative measures of creditworthiness would be able to substitute effectively for this function, at least in the short term.

Only in a few cases have other indicators been introduced as an alternative to ratings.²⁶ Most jurisdictions have not identified alternative measures of creditworthiness that are currently sufficiently reliable to provide an effective substitute for CRA ratings. It is also important to emphasise that, even if alternative standards of creditworthiness can be identified or developed, they should not be promoted or applied in a way that would merely serve to

²⁴ France, Hong Kong, Switzerland, UK.

²⁵ On 19 July 2013, the BCBS issued a consultative document on *Liquidity Coverage Ratio Disclosure Standards*. The common data template adopted under these standards will, inter alia, provide counterparties and other market participants with enhanced information on the composition of a bank’s HQLA and thereby contribute to reducing mechanistic reliance on CRA ratings in this regard.

²⁶ Argentina (in the form of assessments by national universities or certain other authorised organizations) and the United States (as part of the implementation of DFA) – see Annexes C1 and C6.

replace mechanistic reliance on CRA ratings with equally mechanistic reliance on the alternative standards. The aim of the Principles is to eliminate mechanistic reliance on any one specific measure of creditworthiness, as this is the factor that leads most obviously to herding behaviour and cliff-effects which have implications for financial stability.

Thirdly, the development of firms' internal risk assessment systems is constrained by the resource requirements and by the relative scarcity of expertise in credit risk analysis. This issue is perceived to be particularly problematic for smaller financial intermediaries that may be unable to make the level of investment required cost-effectively to develop internal credit risk assessment systems. A number of FSB jurisdictions reported this as a factor that constrained the extent to which market reliance on CRA ratings can be reduced.²⁷ Resource considerations will remain a constraint on the ability of smaller firms to develop internal risk assessment systems for the foreseeable future.

A final constraint is that although the official sector can seek to influence the behaviour of market participants indirectly, it has little ability directly to change private market practices with respect to the use of ratings. The limits of influence reflect the fact that references to ratings frequently feature in private contracts (for example, in the investment mandates given to asset managers) or private sector investment decisions over which regulatory authority is frequently limited. Obligations arising from the fiduciary duties of investors give rise to similar issues: for example, the "prudent man" rule in pension fund investing is often interpreted by the courts as requiring investment in securities with a certain minimum credit rating. In all these respects, regulators can promote but are not ultimately able to impose changes in accepted market practices that do not derive from their regulations. As well as illustrating the importance of operating through the creation of the right incentives, these considerations imply that the official sector may need to lead by example, for example by official sector investment managers placing less reliance on CRA ratings in their own investment mandates.

²⁷ Brazil, Canada, EU, Germany, Hong Kong, Mexico, Singapore, Spain, Turkey.

Annex A: FSB Principles for reducing reliance on CRA ratings

Principle I: Reducing reliance on CRA ratings in standards, laws and regulations

Standard setters and authorities should assess references to credit rating agency (CRA) ratings in standards, laws and regulations and, wherever possible, remove them or replace them by suitable alternative standards of creditworthiness.

- *References to CRA ratings should be removed or replaced only once alternative provisions in laws and regulations have been identified and can safely be implemented.*
- *It is particularly pressing to remove or replace such references where they lead to mechanistic responses by market participants.*
- *Standard setters and authorities should develop alternative definitions of creditworthiness and market participants should enhance their risk management capabilities as appropriate to enable these alternative provisions to be introduced.*
- *Standard setters and authorities should develop transition plans and timetables to enable the removal or replacement of references to CRA ratings wherever possible and the associated enhancement in risk management capabilities to be safely introduced.*

Principle II: Reducing market reliance on CRA ratings

Banks, market participants and institutional investors should be expected to make their own credit assessments, and not rely solely or mechanistically on CRA ratings.

- *The design of regulations and other official sector actions should support this principle.*
- *Firms should ensure that they have appropriate expertise and sufficient resources to manage the credit risk that they are exposed to. They may use CRA ratings as an input to their risk managements, but should not mechanistically rely on CRA ratings.*
- *Firms should publicly disclose information about their credit assessment approach and processes, including the extent to which they place any reliance on, or otherwise use, CRA ratings.*
- *Supervisors and regulators should closely check the adequacy of firms' own credit assessment processes, including guarding against any upward biases in firms' internal ratings.*

Application of the basic principles to particular financial market activities

Principle III.1: Central bank operations

Central banks should reach their own credit judgements on the financial instruments that they will accept in market operations, both as collateral and as outright purchases. Central bank policies should avoid mechanistic approaches that could lead to unnecessarily abrupt and large changes in the eligibility of financial instruments and the level of haircuts that may exacerbate cliff effects.

Central banks should avoid mechanistic use of CRA ratings by:

- *except when infeasible, making independent determinations of whether a financial instrument should be eligible in its operations (both by being prepared to reject assets offered as collateral or for outright purchase despite their external ratings and by assessing whether any external rating change should lead to a change in a financial instrument's eligibility or haircut);*
- *reserving the right to apply risk control measures such as additional haircuts to any individual financial instruments or classes of collateral based on an internal risk assessment; and*
- *reserving the right to apply additional risk control measures such as additional haircuts to any individual financial instrument that has not been subject to an internal risk assessment by the central bank.*

Principle III.2: Prudential supervision of banks

Banks must not mechanistically rely on CRA ratings for assessing the creditworthiness of assets. This implies that banks should have the capability to conduct their own assessment of the creditworthiness of, as well as other risks relating to, the financial instruments they are exposed to and should satisfy supervisors of that capability.

- *In order to provide market discipline, banks should publicly disclose information about their credit assessment approach, and the proportion of their portfolio (or of particular asset classes) for which they have not conducted an internal credit assessment. This could be required for instance through Pillar 3 of the Basel II framework.*
- *Banks using the standardised Basel II approach currently have minimum capital requirements based on CRA credit ratings. As long as some banks continue to have capital requirements based on CRA ratings, supervisory processes should be put in place to check the understanding of the appropriate uses and limitations of CRA ratings by these banks' risk managers.*

III.2.a: Larger, more sophisticated banks within each jurisdiction should be expected to assess the credit risk of everything they hold (either outright or as collateral), whether it is for investment or for trading purposes.

- *In order to ensure that credit risks are adequately managed, banks should, where needed, enhance their capacity for internal credit assessment.*
- *Supervisors should incentivise banks to develop internal credit risk assessment capacity, and to increase use of the internal-ratings-based approach under the Basel capital rules. In order to do this, supervisors should enhance their ability to oversee and enforce sound internal credit policies.*
- *This may require an increase in resources devoted to bank risk management and supervisory oversight of risk management.*

III.2.b: Smaller, less sophisticated banks may not have the resources to conduct internal credit assessments for all their investments, but still should not mechanically rely on CRA ratings and should publicly disclose their credit assessment approach.

- *Such banks should understand the credit risks underlying their balance sheet as a whole and, for all exposures that would materially affect the bank's performance, should make a risk assessment commensurate with the complexity and other characteristics of the investment product and the materiality of their holding.*

Principle III.3: Internal limits and investment policies of investment managers and institutional investors

Investment managers and institutional investors must not mechanically rely on CRA ratings for assessing the creditworthiness of assets. This principle applies across the full range of investment managers and of institutional investors, including money market funds, pension funds, collective investment schemes (such as mutual funds and investment companies), insurance companies and securities firms. It applies to all sizes and levels of sophistication of investment managers and institutional investors.

III.3.a: Investment managers should conduct risk analysis commensurate with the complexity and other characteristics of the investment and the materiality of their exposure, or refrain from such investments. They should publicly disclose information about their risk management approach, including their credit assessment processes.

III.3.b: Senior management and boards of institutional investors have a responsibility to ensure that internal assessments of credit and other risks associated with their investments are being made, and that the investment managers they use have the skills to understand the instruments that they are investing in and exposures they face, and do not mechanistically rely on CRA ratings. Senior management, boards and trustees should ensure adequate public disclosure of how CRA ratings are used in risk assessment processes.

III.3.c: Regulatory regimes should incentivise investment managers and institutional investors to avoid mechanistic use of CRA ratings.

- *Regulators of investment managers should enhance their ability to oversee and enforce sound internal credit policies.*

Principle III.4. Private sector margin agreements

Market participants and central counterparties should not use changes in CRA ratings of counterparties or of collateral assets as automatic triggers for large, discrete collateral calls in margin agreements on derivatives and securities financing transactions.

III.4.a: Supervisors should review the margining policies of market participants and central counterparties to guard against undue reliance on CRA ratings.

Principle III.5: Disclosures by issuers of securities

Issuers of securities should disclose comprehensive, timely information that will enable investors to make their own independent investment judgements and credit risk assessments of those securities. In the case of publicly-traded securities, this should be a public disclosure.

III.5.a: Standard setters and authorities should review whether any references to CRA ratings in standards, laws and regulations relating to disclosure requirements are providing unintended incentives for investors to rely excessively on CRA ratings and, if appropriate, remove or amend these requirements.

Annex B: Roadmap for reducing reliance on CRA ratings

1: Reduce references to CRA ratings in standards, laws and regulation		
BCBS	<p>Complete work to identify remaining elements of the Basel framework that will be reviewed for potential to reduce the reliance on CRA ratings across the Basel framework</p> <p>Develop policy proposals for alternative approaches to reliance on CRA ratings.</p> <p>Adoption by jurisdictions</p>	<p>end-2012</p> <p>mid-2014</p> <p>from 2016</p>
IOSCO, IAIS, OECD	<p>Provide guidance to members on steps to further discourage reliance on CRA ratings</p>	<p>end-2013</p>
National authorities	<p>Complete the stock-taking of legislation/regulation for potential reform (supervisors, central banks, market regulators, finance ministries), possibly followed by peer review</p> <p>Identify/prioritise areas for changes and publicly disclose action plan</p> <p>Propose alternative approaches to CRA references/requirements for public comment</p> <p>Confirm final changes</p> <p>Implementation by market participants is completed</p>	<p>mid-2013</p> <p>mid-2013</p> <p>mid-2014</p> <p>end-2014</p> <p>end-2015</p>
2: Strengthen credit assessment capabilities		
SSBs:	<p>Lead discussion(s) across members to share ideas and experiences, and to better define best practice</p>	<p>Ongoing</p>
National authorities (Policy):	<p>Promote best practice: organise roundtable discussions across public sector, industry, and academia</p> <p>Develop guidance regarding formulation and disclosure of appropriate risk assessment practices</p> <p>Encourage disclosure by financial institutions of information about their credit risk assessment processes as part of their public reporting</p>	<p>Ongoing</p> <p>mid-2014</p> <p>end-2013</p>
Public sector investors	<p>Public sector bodies that are investors or market participants disclose information about credit risk assessment processes and strategy to achieve FSB Principles</p> <p>Participate in national authorities' roundtable discussions at international/national levels</p>	<p>end-2013</p> <p>Ongoing</p>

Annex C1 to C6: Sector-wise comparative tables

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	Annex C1: Banks				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Argentina	Banking activity is scarcely dependant on external ratings. Recently issued rules avoid references to CRA ratings. Retained references in regulation are marginal, with almost no impact.	The retained references concern the next items: –Regulatory rating of debtors and collateral –Net-Worth-to-Loan-Size Ratios –Credit management –Pledging of banking assets	Due to the narrow scope of application of the references pending removal, no alternative definition has been developed yet.	Following the migration to Basel II, the Central Bank guidelines on risk management were enhanced to incorporate all the Pillar 2 rules (including those of Basel 2.5). The guidelines set forth high expectations on bank's own credit assessments.	Due to the short period elapsed since the issuance of the above-mentioned guidelines, no specific procedures have yet been developed.
Australia	No references were removed.	Australia's prudential standards set legally enforceable requirements for prudentially regulated institutions in regard to their identification and management of risks. APRA has judged that the current framework is robust and does not pose systemic or market risks and sees no sound prudential basis for removing references to CRA ratings in its prudential standards. Further, CRA ratings are an integral part of the Basel Framework with which APRA wishes to remain compliant. Australia will continue to monitor international developments (including work by the BCBS to reduce the reliance on CRA ratings across the Basel framework) and implement relevant commitments as required.	The major banks in Australia have approval to use the IRB approaches to credit risk. ADIs that use the Standardised Approach are nonetheless expected to form their own view on the creditworthiness of obligors, irrespective of external ratings.	APRA's supervision of an ADI's credit assessment processes is conducted under its supervisory oversight and response system (SOARS) and includes regular on-site and off-site reviews by credit risk specialists. Identified deficiencies will be incorporated into APRA's probability and impact ratings system (PAIRS) and may trigger a range of supervisory responses, including an increase in regulatory capital requirements. An ADI's credit assessment processes are also closely reviewed before grant of an authority to carry on banking business and as part of the IRB accreditation process.	An ADI using the IRB approach is required on an annual basis to review its internal ratings and to independently audit its processes for determining these ratings. APRA also reviews ADIs' conduct in this regard as part of its ongoing supervision and, in particular, during targeted credit reviews.
Brazil	References to CRA ratings are already marginal in banking regulations. This is the reason why we decided not to remove the remaining references to CRA ratings.	A few National Monetary Council (CMN) resolutions that require a specific minimum rating for certain types of foreign operations are retained.	External ratings are only a supplementary source of information in the process of internal credit assessment for provisioning purposes. Regarding prudential requirements on loan-loss provisions, financial institutions must assign internal ratings to their credit operations. Generally, the SA approach is adopted under Basel II framework. If external ratings are used for provisioning purposes, information on their use may be asked to complement the Credit Information System (SCR)	Use of internal ratings in provisioning must observe the following principles: (i) definition of minimum assessment criteria and (ii) accountability of institutions in case of inadequate assessment.	

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	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
			at the Central Bank of Brazil. The SCR system aims at two basic purposes: (i) exchange of information and (ii) monitoring and supervision.		
Canada			A-IRB approach is adopted under Basel II framework.	OSFI conducts file reviews (on a sample basis) at selected regulated banks. This review includes an assessment of the credit risk analysis that was completed and the suitability of the internal rating that was assigned. If OSFI does not concur with the assigned rating based on the file, a downgrade is advised to the institution based on their internal rating scale.	For banks that use the internal ratings-based approach, any internal rating assigned that is higher than the equivalent external rating(s) must be justified in the credit approval.
China	None	A set of regulations concerning –MMFs Interim Provisions; –Investment in Foreign Securities; –Investment Funds Investing in ABS; –MMFs Investing in Short-term. Financing Bonds are identified and retained	F-IRB approach is adopted under Basel II framework.		
European Commission		The Capital Requirements Directive (CRD) requires credit institutions to have their own sound credit granting criteria and credit decision processes in place. For the specific purposes of calculating regulatory bank capital requirements, rating agency assessments are, in certain instances, applied as a basis for differentiating capital requirements according to risks, and not for determining the minimum required quantum of capital itself. In the specific case of securitisation exposures and due to a lack of sufficiently objective internal methodologies within banks, most of them would be expected to calculate their regulatory capital requirements	Within the banking framework (CRD), regulatory authorities are involved in the “internal ratings based approach (the IRB approach) to capital requirements for credit risk”. Only banks meeting certain minimum conditions, disclosure requirements and approval from their national supervisor are allowed to use this approach in estimating capital for various exposures. To these end regulatory authorities in the EU, are actively reviewing credit risk assessment capabilities of financial institutions which qualify for the IRB approach.	The new CRD IV requires that credit institutions' management body devotes sufficient time and adequate resources to consideration and management of risk issues. It requires institutions to report the results of the calculations of their internal approaches. Furthermore, competent authorities shall monitor the range of risk weighted exposure and at least once a year make an assessment of the quality of those internal approaches. The European Banking Authority, (EBA) shall produce a report to support the competent authorities in the assessment of the quality of the internal approaches.	The new CRD IV introduces a supervisory benchmarking of Internal Approaches for calculating own funds requirements. This provision requires institutions to report the results of the calculations of their internal approaches. Institutions shall submit the results of their calculations together with an explanation of the methodologies used to produce them to the competent authority Furthermore, competent authorities shall monitor the range of risk weighted exposure and at least once a year make an assessment of the quality of those internal approaches.

	Annex C1: Banks				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		by reference to external ratings.			
France	N/A		See answer by the European Commission (A-IRB approach is adopted under Basel II framework).	See answer by the European Commission	See answer by the European Commission
Germany	N/A	See answer by the European Commission	See answer by the European Commission.	See answer by the European Commission	See answer by the European Commission
Hong Kong	Some regulations concerning the Banking Ordinance on liquidity will be removed.	CRA references in Banking (Liquidity) Rules once produced will be retained. Several provisions in the Banking Capital Rules (BCR) are identified and not removed	As far as banking supervision is concerned, the references to CRA ratings are all related to the regulatory capital and liquidity frameworks. As the content of these frameworks will mainly be driven by the international standards developed by the Basel Committee, the HKMA has no plan to develop alternative measures of creditworthiness (other than those proposed by the Basel Committee) for the purpose of replacing the references to CRA ratings (A-IRB approach is adopted under Basel II framework).	The HKMA reviews the adequacy of banks' own credit assessment processes through its day-to-day supervisory process, including on-site examinations and off-site reviews, to understand, and where necessary comment on, their credit assessment processes. In particular, the HKMA regularly conducts thematic examinations of banks' credit risk management in which banks' own credit assessment processes would be reviewed.	The HKMA has issued supervisory guidance, as set out in its Supervisory Policy Manual ("SPM") that should assist in guarding against upward biases in banks' internal ratings. Adoption of the IRB approach to calculate regulatory capital for the credit risk of their non-securitisation exposures is subject to approval by the regulator.
India	Banks in India use ratings issued by regulated CRAs for the purpose of capital adequacy computation. RBI's regulatory framework requires banks to have their own credit risk assessment model for lending decisions and not rely only on CRAs. As such banks do not rely solely on ratings by CRAs and there is no such proposal to amend any law or regulation at present.	N/A	Ratings by CRAs are utilised for capital charge calculations. To assess creditworthiness, banks use internal assessments. Generally, SA approach is adopted under Basel II framework.	Banks in India are subject to onsite and offsite monitoring. All commercial banks are subjected to onsite audit once in a year. The audit process includes an evaluation of the adequacy of the banks' processes in place for the purpose of credit assessment.	
Indonesia	None	The retained references concern the next items: –Commercial Banks Assets Quality Rating (CRA is used only for securities that are not traded actively on the exchange. The criteria used to assess the quality rating of other assets does not depend on external ratings); –Minimum capital requirement calculation for banks using the standardized approach for market risk;	None	Bank supervisors in assessing the CRA ratings used by banks should ensure that the ratings reflect the credit risks of the debtors and/or counterparties of the respective banks. The guidelines expect banks to carry out their own credit risk analysis. Supervisors are required to review the credit underwriting process of the bank during on-site supervision. In the case where supervisors consider	N/A

	Annex C1: Banks				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		–Minimum Capital Requirement for Credit Risk		the CRA ratings not reflecting the credit risk of the exposure, supervisors should set a higher capital charge than that determined by the respective bank.	
Italy	N/A	See answer by the European Commission. Given the predominance of Small and Medium Enterprises in the credit portfolios of the Italian banking groups, the presence of external ratings is quite low. CRA ratings play a role for a small portion of banks' portfolio, represented by large corporate exposures	See answer by the European Commission (A-IRB approach is adopted under Basel II framework).	The use of the unsolicited rating in calculating capital requirements by Italian banks is very limited and declining In 2008, guidelines were issued requiring banks to perform their own risk assessment also in presence of external ratings. Such guidelines have been recently incorporated into the prudential rulebook (Circular n. 263 "New regulations for prudential supervision of banks") with the fifteenth revision issued on 2 July 2013 ²⁸ .	
Japan	Revision of Supervisory guidelines and removal of several references in related rules. There were originally few laws and regulations which had references to CRAs, because most Japanese banks have internal credit rating systems and they refer CRAs as a complementary data.	<i>A notice for selection of eligible CRA that may be used for calculation of banks' capital ratio.</i>	In Japan, most banks have their own internal rating system and use CRA ratings as a supplementary measure to assess creditworthiness (A-IRB approach is adopted under Basel II framework).	The FSA reviews if banks establish appropriate internal rating systems taking consideration of other information than external credit ratings assigned by CRA. Especially, for banks which adopt the IRB approach, the JFSA confirms if other related information than external credit ratings when ratings are assigned to exposures. The FSA improves inspectors' skill and knowledge to assess risks for securitized products, having a database which holds documents and information of about 400 securitized products.	In its inspection, the FSA checks in detail whether banks' credit risk management system is appropriate, including whether their internal ratings are appropriate. Additionally the FSA inspects if banks have limits on changing internal ratings compared with CRA. In the case where they change their internal rating more than 2 notches, JFSA requires them to prove the new rating's credibility.

²⁸ See http://www.bancaditalia.it/vigilanza/normativa/norm_bi/circ-reg/vigprud/263CIRC_15AGG.pdf

	Annex C1: Banks				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Korea	N/A	A set of regulations are identified and not removed	Generally, F-IRB approach is adopted under Basel II framework.	Enhanced due diligence is required when external credit rating is used for securitization exposures assessment. Supervisory authorities check a financial institution's due diligence process on a regular basis.	Individual banks design and operate their own standards to be met for credit upgrade. In times of credit upgrading, banks should submit references/evidences. Loan review department conduct review on this issue. Moreover, default rate for each credit rating is reviewed to confirm the adequacy/legitimacy of the graded credit rating.
Mexico	The removed references concern the next topics: –Approach for loan loss reserves of the loans granted to subnational governments; –Loan loss reserves	The CNBV is compliant to the Credit Risk Standardized Approach of the Basel II Framework in which CRA's ratings are an integral part. This applies to corporations, securitizations, foreign financial institutions as well as to states and municipalities.	The new methodology estimates the expected loss of the loans, which is based in quantitative factors such as credit records (credit reporting agency source) and borrower's financial information to determine the debtor's willingness to pay. CRA rating is no longer the main factor to evaluate the credit risk of loans. Furthermore, regarding securitizations, the capital rule requires the underlying assets to be internally valued by the bank. The assigned CRA rating should not be the sole factor for solvency purposes.	In respect of securities issuances, as well as for other products, intermediaries are obliged to conduct an analysis that includes: - The risk associated, including credit, liquidity and market risks, as well as an evaluation of assets thereunder. - Financial situation (historic data) of the issuer, counterparty or provider of the derivative component. In addition, in the case of ABS securities, derivatives, structured notes, and other complex products, the assessment must include: - Assets thereunder or components from which flows depend; - The structure of the security including flow of funds analysis, and the evaluation of how associated risks are contained or increased, as well as the functions of third parties within that structure.	
Netherlands	See answer by the European Commission	See answer by the European Commission	See answer by the European Commission (A-IRB approach is adopted under Basel II framework).	See answer by the European Commission	See answer by the European Commission
Russia	N/A	Several regulations concerning prudential ratios (including capital adequacy ratio), loan loss provisions market risk capital charges – references are identified and not	Work is underway on the IRB approach.	Pillar II is not yet fully implemented (lack of legislative powers has just been solved by a subsequent law).	N/A

Annex C1: Banks					
Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)		
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		removed.			
Saudi Arabia	None	Several references are identified in regulations and not removed. CRA Ratings are used only under the Standardized Approaches to Credit and Market Risk under Basel II, II.5, and III.	BCBS methodology permits use of IRB Approach. Banks are encouraged to gradually move to IRB Approaches. There are no alternative definitions or standards for assessment purposes.	The supervisory review process including supervisory meetings, inspections and validations are used for checking the adequacy of banks own credit assessments.	Validation of IRB Systems by SAMA Inspection Team.
Singapore	N/A	Several references are identified and not removed. They concern the next items: –Exposures to Single Counterparty Groups; –Minimum Asset Maintenance Requirements; –Capital Adequacy Requirements for Banks	A-IRB approach is adopted under Basel II framework. A bank must perform appropriate due diligence prior to the use of CRA's rating and form own opinion on the adequacy of regulatory risk weight. MAS's credit risk management guidelines emphasise the need for financial institutions to conduct comprehensive assessments and monitoring of the creditworthiness of obligors rather than just rely on external credit ratings. An institution should also have a policy to develop, review and implement an internal risk rating system where appropriate. Such a system should be able to assign a credit rating to obligors that accurately reflects the obligor's risk profile and likelihood of loss and should be validated periodically. Institutions' implementation of guidelines is examined during inspections.	A mix of on-site and off-site supervisory processes and procedures are used to check the adequacy of bank's own credit assessment processes. (A) On-site inspection During on-site inspections, supervisors cover the various aspects of the credit lifecycle, with a view to ensuring that policies and processes are comprehensive and result in a properly controlled credit risk environment (B) Off-site reviews As part of ongoing off-site supervision, supervisors also leverage on peer comparisons of common credit indicators among banks to assess the adequacy of banks' credit assessment processes	Supervisors assess the adequacy of banks' credit assessments by using a combination of on-site and off-site supervisory tools. In particular, credit assessments should be comprehensive and do not place undue reliance on external credit ratings of the borrowers. An external credit rating is generally used as one of the early warning triggers to prompt review of internal ratings for possible downgrade. It is also one measure used for validation of low default portfolios in the form of external benchmarking
South Africa	None. CRA ratings form an integral part of the internationally agreed frameworks, standards and requirements issued by standard-setting bodies such as the Basel Committee, and CRA ratings also form an integral part of banks' risk management processes and practices. The policy of the Bank Supervision	The South African regulatory framework complies with internationally agreed frameworks, standards and requirements, such as Basel II and Basel III, and international best market practices, with limited use of CRA ratings and sufficient checks and balances in place to ensure the appropriate use of CRA	Not applicable. The South African regulatory framework complies with internationally agreed frameworks, standards and requirements, such as Basel II and Basel III, and international best market practices, with limited use of CRA ratings and sufficient checks and balances in place to ensure the appropriate use of CRA	The BSD has in place a robust Supervisory Review and Evaluation Process that includes on-site and off-site supervision, including frequent meetings with banks. Among other agenda topics, these meetings cover an overview of and the robustness of the credit risk management framework, including a discussion of credit	To prevent upward biases, banks have governance processes in place that place limited authority on specific individuals to override obligor ratings. The reasons for overrides are documented such that an increase in overrides would justify a review and adjustment of current assessment methods.

	Annex C1: Banks				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
	Department (BSD) of the South African Reserve Bank is to remain compliant with internationally agreed frameworks, standards and requirements, and international best market practices.	ratings for risk management and capital adequacy purposes .	ratings for risk management and capital adequacy purposes .	granting processes and policies governing the extension of credit, overall risk distribution of the credit portfolio and identification of concentration risk; the appropriate use of CRA ratings; internal risk-rating systems and stress tests. Sufficient checks and balances are in place to address any inappropriate use of CRA ratings for risk management and capital adequacy purposes.	As part of internal rating system monitoring processes, IRB banks conduct prescribed annual model validations to ensure that internal ratings consistently measure the actual risk accurately. As part of this process, back-testing is conducted to ensure that estimated outputs are not significantly different from actual outputs.
Spain		See answer by the European Commission.	See answer by the European Commission (A-IRB approach is adopted under Basel II framework).	A resource-intensive supervisory process for the validation and approval of the internal ratings models has been adopted. This process is continuous. There is an emphasis on checking and monitoring the effective integration of those models in day-to-day risk management. Also, other types of analyses are undertaken, such as sensitivity analyses, testing of the behaviour of ratings compared to the observed default data (stability and robustness of the discriminatory power of models), comparisons between different IRB banks in the Spanish jurisdiction, etc.	A resource-intensive supervisory process for the validation and approval of the internal ratings models has been adopted. There is a strong emphasis on checking and monitoring the effective integration of those models in day-to-day risk management. Also, other types of analyses are undertaken, such as sensitivity analyses, testing of the behaviour of ratings compared to the observed default data (stability and robustness of the discriminatory power of models), comparisons between different IRB banks in the Spanish jurisdiction, etc.
Switzerland	No references removed. The use of external ratings is very limited.	Several references concerning capital ordinance are identified and not removed	Not yet. Given that domestic prudential regulations around banks are following the Basel regulation, FINMA would like to support changes that would be coordinated through Basel and specific task forces reviewing these aspects (A-IRB approach is adopted under Basel II framework).	No specific supervisory processes put in place for this matter due to a generally low materiality of the usage of ratings at SA or IRB banks in Switzerland. Reasons are that the domestic market for debt is greatly unrated, that the investment in rated positions by small and medium banks is low and that banking book positions are mainly retail positions. Other banks whose positions would fall under wholesale use of ratings for prudential purposes would then be typically under IRB. However in the future supervisory	IRB surveillance covers ratings approach and risk drivers (e.g., difference with drivers used by the CRAs), then back-testing and benchmarking provide ways to gauge quality of internal ratings. Discussions around "bank internal ratings" are held annually.

	Annex C1: Banks				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
				processes could be envisioned in areas where credit ratings would be the most material, such as market risk and liquidity measurement.	
Turkey	CRA ratings are not obligatory in any banking operation	Several references concerning measurement and evaluation of capital and liquidity adequacy of banks are identified and not removed		Supervisory authority (SA) reviews the bank's credit practices which include allocation, monitoring and assessing, as deep as possible, within its regular annual audit plan. Reviewing credit risk assessment of banks is practiced currently pursuant to the internal audit guideline of SA. Besides that SA will soon publish some guidelines for the banks within the scope of implementation Basel II pillar 2 requirements.	
UK	A number of provisions in the Prudential Regulation Authority (PRA) Handbook contain references to external ratings and will be deleted upon implementation of the European Capital Requirements Regulation (CRR).	A few provisions in the PRA Handbook are retained, particularly in regard to liquidity standards. CRD also applies. See answer by the European Commission.	See answer by the European Commission (A-IRB approach is adopted under Basel II framework).	The Risk Specialist Division at the PRA undertakes Technical Risk Reviews (TRRs) on its regulated firms in support of Supervision. TRRs cover, amongst other things, commercial and business risks, risk management competence, models, stress and scenario testing and it is through these reviews that the PRA checks the adequacy of its banks' credit assessment processes.	The PRA has three key processes in place to identify and address upward biases in banks' internal ratings. (i) Every two years a hypothetical portfolio exercise is conducted, where firms provide information on their ratings for each obligor (as well as Probability of Default and Loss Given Default information) from the set of large corporate, bank and sovereign obligors. A review is then undertaken of firms with rating systems that are found to be outliers. Where any unwarranted bias is found, appropriate action is taken. (ii) Any new rating system that a firm seeks to use to calculate regulatory capital (within the IRB approach), or changes to an existing rating system, must be approved by the PRA. The PRA does not approve rating systems that it judges to have an unwarranted bias.

	Annex C1: Banks				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
					(iii) The PRA conducts periodic reviews of firm's monitoring and validation of their rating systems and requires adjustments to be made to any model the performance of which exhibits unwarranted bias, among other things. The PRA also participates in the IRB Hypothetical Portfolio Exercises being undertaken by the BCBS and the EBA.
USA	Consistent with section 939A of the Dodd-Frank Act, the agencies have adopted a number of changes to the definitions in the advanced approaches rule that currently reference credit ratings. These changes are similar to alternative standards adopted in the standardized approach (e.g. the proposed definition of investment grade that does not reference ratings) and alternative standards that have been implemented in the agencies' market risk capital rule. The FDIC has revised the deposit insurance assessment rules by removing references to credit ratings.		New rules remove references to external credit ratings and generally require national banks to make assessments of a security's creditworthiness to determine if it is "investment grade." (Under U.S. law, the requirement for national banks also applies to state-chartered banks) An issuer satisfies this requirement if the bank appropriately determines that the obligor presents low default risk and is likely to make timely payments of principal and interest. Federal agencies issued final guidance documents that set forth due diligence standards for determining the credit quality of a security. The FDIC adopted similar revisions for purposes of its regulation regarding permissible corporate debt securities investments of state and federal savings associations, in accordance with section 939(a) of the Dodd-Frank Act.	The federal agencies issued guidance documents to clarify steps national banks and federal savings associations ordinarily are expected to take to demonstrate they have properly verified their investments meet the newly established credit quality standards	Through the supervisory process banks are examined to ensure that they are conducting the appropriate level of due diligence to understand the inherent risks of a security and determine that it is a permissible investment. U.S. regulators expect the due diligence to be sufficient to support the institution's conclusion that a security meets the "investment-grade" standards. Third-party analytics may be part of this analysis, although the bank's management remains responsible for the investment decision and should ensure that prospective third parties are independent, reliable, and qualified.

Annex C1: Banks					
Application of the basic principles to particular financial market activities (Principle III)					
III.1 Central bank operations (Principle III.1)					
	Description of the role played by CRA ratings in central bank policies	Does central bank impose risk control measures (including haircuts) on financial instruments based on internal credit assessment?	Does central bank impose risk control measures (including haircuts) on financial instruments where these have not been subject to internal credit assessment?	Details of policies for which the role played by CRA ratings has been adjusted in line with the FSB Principles	Actions taken or planned to develop central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness
Argentina	<p>The BCRA has traditionally relied on CRA ratings for portfolio share constraints and issuer concentration ceilings for reserves management purposes, including repos with a foreign bank.</p> <p>CRA ratings are not used for monetary policy operations (domestic repos).</p>	No. The BCRA does not use risk control measures based on internal credit assessment.	Yes. Haircuts are applied on the basis of asset liquidity characteristics.	References to CRA ratings in reserves management policies were identified.	The BCRA is analysing new models and ratios, that incorporate market prices and fundamentals in addition to CRA ratings, for possible use in an enhanced credit assessment framework for reserves management.
Australia	<p>Foreign exchange counterparties must meet a minimum average credit rating requirement. The assessment of eligibility and risk limits, by the RBA's credit committee and senior management, is also informed by market-based indicators of credit risk, such as CDS premia, bond yields and equity valuations, as well as balance sheet metrics.</p> <p>The use of CRA assessment in managing foreign exchange reserves is largely confined to deposit and repurchase agreement counterparty limits.</p> <p>A ratings action (or, equally, the absence of a ratings action) is also considered within the broader context of the RBA's reserve management mandate and the RBA's policy objectives., but not in a mechanistic way.</p> <p>CRA ratings play a role in determining the repo eligibility and haircuts of securities which are issued in Australian dollars by foreign governments (with the exception of New Zealand) or supranationals (owing to the difficulty in obtaining alternative assessments of credit quality efficiently), and of securities issued by authorised deposit-taking institutions (ADIs). Senior</p>	Yes. Internal credit assessments are undertaken for New Zealand Government securities for eligibility purposes. More generally, internal credit assessments are used to determine haircuts above CRA-related minimums.	Yes. The RBA applies haircuts to ADI securities pledged for repo based, in part, on external credit ratings. No internal credit assessment is performed on these securities. Repo eligibility in general does not incorporate an internal credit assessment.	From November 2011, the RBA increased the role of the prudential regulator, widened RBA's discretion in determining haircuts and de-emphasised the role of the CRAs. Minimum rating requirements for New Zealand Government or Government Guaranteed debt was also waived in favour of an internal credit assessment. Effective 31 December 2014, RMBS must meet new transparency requirements to allow collateral to be assessed internally by the RBA.	The RBA is increasing reporting requirements related to RMBS and developing models to accurately price them (i.e. to help determine appropriate haircuts).

Annex C1: Banks					
Application of the basic principles to particular financial market activities (Principle III)					
III.1 Central bank operations (Principle III.1)					
	Description of the role played by CRA ratings in central bank policies	Does central bank impose risk control measures (including haircuts) on financial instruments based on internal credit assessment?	Does central bank impose risk control measures (including haircuts) on financial instruments where these have not been subject to internal credit assessment?	Details of policies for which the role played by CRA ratings has been adjusted in line with the FSB Principles	Actions taken or planned to develop central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness
	management is also prepared to exercise discretion to avoid unnecessarily abrupt and large changes in the eligibility of financial instruments and the size of haircuts.				
Brazil	<p>Credit risk ratings assigned internally by financial institutions for provisioning purposes are used by the Central Bank of Brazil to evaluate collateral posted in rediscount operations. These ratings are based on internal and external information, which may or may not include CRA ratings.</p> <p>For the purpose of managing Brazilian international reserves, the Central Bank of Brazil employs external ratings to establish the eligibility, maximum amounts of exposure, and maximum terms of operations for counterparties and issuers. CRA ratings and other parameters are used in a proprietary model for measuring total credit risk of the portfolio.</p>	Yes. For the purpose of managing Brazilian international reserves, the Central Bank of Brazil employs a hybrid methodology which relies on external ratings as well as on other parameters to control credit risk.	No. The risk unit at the Central Bank of Brazil always provides a comprehensive credit evaluation of the issuers or counterparties, where CRA ratings are just a part of the assessment.	Currently, restrictions and eligibility of debt issuers and counterparties do not depend solely on CRA ratings. The rules comprehend other parameters estimated by the risk unit at the Central Bank of Brazil.	<p>The Central Bank of Brazil is currently developing an internal methodology for assessing the credit risk of potential counterparties in international reserve management operations. This project aims at reducing reliance on CRAs and turning external ratings into auxiliary inputs for credit risk assessment.</p> <p>Designed to guarantee the independence of the credit risk analysis, to mitigate conflict of interests, to improve accountability and to increase transparency, the framework will support the attribution of: i) long-term internal ratings (LTIRs) and ii) short-term internal ratings (STIRs). While the LTIRs are due to convey a through-the-cycle view with respect to the counterparty risk, the STIRs aim to provide a timely assessment of the near term default risk.</p>
Canada	The second highest rating issued by Moody's, S&P, Fitch or DBRS is currently used in the management of reserves : (i) to inform decisions about the eligibility of counterparties; (ii) to set exposure limits for individual counterparties within the same asset class; and (iii) in collateral agreements. Market-based and forward-looking information such as CDS and bond spreads, as well as rating outlooks	<p>No, for the management of reserves. Interim and internal assessments of sovereign credit fundamentals are used to support decisions regarding desired investment exposures.</p> <p>No, for monetary policy/standing facility purposes. The haircuts schedule employed for the SLF depends on the asset type, on the residual maturity, and on the second</p>	<p>No, for reserves management.</p> <p>Yes, for monetary policy/standing facility purposes.</p>	The Bank is continuing to develop internal credit assessment capabilities for its management of foreign reserves (see rightmost column for details). In 2010, the Bank also revised its SLF policy to require a minimum of two credit ratings and the use of the second highest rating in determining collateral eligibility and the applicable haircut.	<p>The Bank of Canada continues to undertake a range of work to reduce reliance on ratings in the area of reserves management. In 2010, the Bank's Financial Risk Office completed its first internal assessment of sovereign credit fundamentals and compared the results with external ratings. The review was expanded and updated in 2012.</p> <p>Within the past year, the Bank of</p>

Annex C1: Banks				
Application of the basic principles to particular financial market activities (Principle III)				
III.1 Central bank operations (Principle III.1)				
Description of the role played by CRA ratings in central bank policies	Does central bank impose risk control measures (including haircuts) on financial instruments based on internal credit assessment?	Does central bank impose risk control measures (including haircuts) on financial instruments where these have not been subject to internal credit assessment?	Details of policies for which the role played by CRA ratings has been adjusted in line with the FSB Principles	Actions taken or planned to develop central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness
<p>published by CRAs, are used to monitor any deterioration in 'perceived credit quality' of select sovereigns and potentially could result in scaled back exposures. There is some flexibility in exceptional circumstances such as a ratings downgrade to hold assets that do not otherwise meet the eligibility criteria.</p> <p>Government of Canada cash balances are invested with participating financial institutions, and the second-highest CRA rating is used in determining which securities will be accepted as collateral, the haircuts that will be applied, and also in setting the uncollateralized and collateralized access of each institution to the funds being auctioned. Ratings are applied in a "non-granular" way (i.e., if the second highest rating were "A+", "A" or "A-", the rating assigned for auction purposes would be "A").</p> <p>The second-highest credit rating must satisfy the minimum level for the security type when assets are assessed for eligibility as collateral to the Standing Liquidity Facility (SLF). The Bank retains the right of refusal for any asset presented as collateral, allowing for other relevant factors to determine acceptability. Credit ratings are not required for all eligible assets (e.g. the non-mortgage loan portfolio may be assigned to the Bank for use as SLF collateral).</p> <p>CRA ratings are not used in relation to monetary policy operations (overnight repo operations are conducted against</p>	<p>highest credit rating. The Bank may use other risk control measures, such as limiting the concentration of a private sector issuer's security in a given pledger's collateral portfolio.</p>			<p>Canada has begun implementing a new credit assessment framework for reserves management with associated governance arrangements. As rating methodologies are being developed and refined, interim methodologies are being applied in credit analyses being undertaken by a newly-formed Credit Risk Assessment Group. This work should be completed over the next 12 to 18 months.</p> <p>In 2012, the Bank began a multi-year project to reduce the role of CRA ratings in determining the eligibility of assets for the SLF and the applicable haircuts.</p>

Annex C1: Banks					
Application of the basic principles to particular financial market activities (Principle III)					
III.1 Central bank operations (Principle III.1)					
	Description of the role played by CRA ratings in central bank policies	Does central bank impose risk control measures (including haircuts) on financial instruments based on internal credit assessment?	Does central bank impose risk control measures (including haircuts) on financial instruments where these have not been subject to internal credit assessment?	Details of policies for which the role played by CRA ratings has been adjusted in line with the FSB Principles	Actions taken or planned to develop central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness
	Government of Canada securities only).				
China	<p>In open-market operations, pledged collateral must fall into the category of government bonds, which can be regarded as "risk-free" financial assets. So there is no external credit rating required for these assets.</p> <p>For central bank lending to commercial banks, the external credit rating is one important reference for determining eligible collateral. Acceptable collateral is limited to securities with highest credit rating and credit assets with highest quality for the purpose of risk control.</p>	N/A	N/A	N/A	We are studying the possibility of establishing an internal credit rating system in order to control risks effectively. We will continuously improve our research capabilities and the level of analysis and strengthen the central bank's internal assessment of various credit instruments.
European Commission	N/A	N/A	N/A	N/A	N/A
France	<p>For proprietary trading purposes (investment and collateralisation of trading activities), CRA ratings are used to determine the eligibility of a debt investment (second best basis), or to determine the maximum credit risk limit allowed to a counterparty/issuer. This is complemented by a concise internal review of other market indicators of credit risk. An exception can be made based on a more thorough internal analysis of the credit risk. Credit risk measures may also be applied without referring to CRA ratings.</p> <p>For monetary policy purposes, the eligibility and haircuts of marketable assets are partly based on credit quality. This is determined according to the Eurosystem credit assessment framework (ECAAF), which takes into account information from i) CRA ratings (DBRS, Fitch Ratings, Moody's, Standard &</p>	Yes. The Banque de France is using internal risk measures for two types of assets used as collateral: portfolio of automobile loans and portfolio of mortgage loans (under the umbrella of the ACC, Additional Credit Claims framework). Such internal risk measures are akin to a scoring system based on the loan-by-loan characteristics.	<p>Yes. Whenever an ECAF source other than an ICAS (i.e. CRA, Rating Tools, or a counterparty's IRB-system) is used as primary credit assessment source, risk control measures (i.e. valuation haircuts) are applied depending on that ECAF source's (including CRA's) risk assessment.</p> <p>In the case of an investment, if the CRA ratings do not conform to our minimum threshold, an additional analysis is conducted in-house by credit analysts. In the absence of such, not investment is authorized, or equivalently a zero limit is imposed.</p>	The investment policies based on CRA ratings have been put in place in 2007 and the usage of the CRA ratings have not materially changed since.	<p>The Governing Council of the ECB announced on 8 December 2011 its intention to enhance the Eurosystem's internal credit assessment capacities. This led to the acceptance of a new ICAS within the ECAF. The approval of further ICAS is pending. Main factors driving this decision were the intention to reduce reliance on rating agencies, but also the fact for many (smaller) debtors of credit claims (eligible under the Eurosystem framework) no external credit assessment exists.</p> <p>A working group was created to define an internal credit assessment model for international banks, based on a statistical scoring system, to supplement the CRA ratings.</p> <p>The decision to launch such study was driven by several factors:</p>

Annex C1: Banks				
Application of the basic principles to particular financial market activities (Principle III)				
III.1 Central bank operations (Principle III.1)				
Description of the role played by CRA ratings in central bank policies	Does central bank impose risk control measures (including haircuts) on financial instruments based on internal credit assessment?	Does central bank impose risk control measures (including haircuts) on financial instruments where these have not been subject to internal credit assessment?	Details of policies for which the role played by CRA ratings has been adjusted in line with the FSB Principles	Actions taken or planned to develop central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness
<p>Poor's); ii)national central banks' in-house credit assessment systems (ICASs); iii) counterparties' internal ratings-based (IRB) systems; or iv) third-party providers' rating tools (RTs). The different grades of accepted CRAs' ratings are mapped onto a harmonised rating scale with three credit quality steps. For assets other than ABS, a first-best rating rule applies, whereas ABS are subject to a second-best rule. CRA ratings are the most relevant source of credit information for marketable assets. Regardless of the CRA ratings, the Eurosystem may decide to accept, refuse, or limit securities as collateral or apply supplemental haircuts on the basis of any relevant information. (At the moment, the minimum rating threshold is suspended for marketable securities issued or guaranteed by the Irish, Greek and/or Portuguese government.)</p>				<ul style="list-style-type: none"> - try to reduce the reliance on CRAs in general; - obtain a more prospective view of the credit risk of banks; - delink the analysis of a bank from its sovereign credit risk.
<p>Germany</p> <p>As regards investment operations (foreign reserves and Euro denominated investments) CRA ratings are used to define eligibility thresholds and exposure limits for issuers, counterparties and financial instruments. External ratings are supplemented by additional information in the daily monitoring of the credit quality and the reputation of issuers and counterparties.</p> <p>For monetary policy purposes, the eligibility and haircuts of marketable assets are partly based on credit quality. This is determined according to the Eurosystem credit assessment framework (ECAAF), which takes into account information from i) CRA ratings (DBRS,</p>	<p>Yes, for monetary policy purposes. The Bundesbank does operate an ICAS within the ECAF. Whenever the ICAS is used as primary credit assessment source, risk control measures (i.e. valuation haircuts) are applied depending on Bundesbank's ICAS credit assessment.</p> <p>No, for investment operations. No internal credit assessment comparable to that of CRAs is in place.</p>	<p>Yes. Whenever an ECAF source other than an ICAS (i.e. CRA, Rating Tools, or a counterparty's IRB-system) is used as primary credit assessment source, risk control measures (i.e. valuation haircuts) are applied depending on that ECAF source's (including CRA's) risk assessment.</p>	<p>In the area of monetary policy, Bundesbank has used internal credit assessments for non-financial corporations produced by its own ICAS since the start of the European monetary union (i.e. before the FSB Principles were issued; Bundesbank has also relied on internal credit assessments for non-financial corporations before the start of the monetary union).</p> <p>Completely mechanistic use of ratings within the Eurosystem collateral framework is avoided (at the moment the application of the minimum rating threshold for marketable debt instruments issued or guaranteed by the governments of the Hellenic</p>	<p>The Governing Council of the ECB announced on 8 December 2011 its intention to enhance the Eurosystem's internal credit assessment capacities. This e.g. led to the acceptance of two new ICAS within the ECAF. The approval of further ICAS is pending. Main factors driving this decision were the intention to reduce reliance on rating agencies, but also the fact that for many (smaller) debtors of credit claims (eligible under the Eurosystem framework) no external credit assessment exists. Moreover Creditreform was accepted as a new Rating Tool within the ECAF.</p> <p>As regards investment operations, the</p>

Annex C1: Banks				
Application of the basic principles to particular financial market activities (Principle III)				
III.1 Central bank operations (Principle III.1)				
Description of the role played by CRA ratings in central bank policies	Does central bank impose risk control measures (including haircuts) on financial instruments based on internal credit assessment?	Does central bank impose risk control measures (including haircuts) on financial instruments where these have not been subject to internal credit assessment?	Details of policies for which the role played by CRA ratings has been adjusted in line with the FSB Principles	Actions taken or planned to develop central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness
<p>Fitch Ratings, Moody's, Standard & Poor's); ii) national central banks' in-house credit assessment systems (ICASs); iii) counterparties' internal ratings-based (IRB) systems; or iv) third-party providers' rating tools (RTs). The different grades of accepted CRAs' ratings are mapped onto a harmonised rating scale with three credit quality steps. For assets other than ABS, a first-best rating rule applies, whereas ABS are subject to a second-best rule. CRA ratings are the most relevant source of credit information for marketable assets. Regardless of the CRA ratings, the Eurosystem may decide to accept, refuse, or limit securities as collateral or apply supplemental haircuts on the basis of any relevant information. (At the moment, the minimum rating threshold is suspended for marketable securities issued or guaranteed by the Cypriot, Irish, Greek and/or Portuguese government.)</p>			<p>Republic, the Republic of Ireland, the Republic of Portugal or the Republic of Cyprus is suspended). Moreover, a yearly performance monitoring of CRAs credit assessments takes place.</p> <p>Therefore, no adjustments have been made.</p>	<p>Bundesbank has so far abstained from substituting external ratings by internal credit risk assessments, due to the significant costs of establishing internal rating capabilities, potential reputation risks as well as the institution's very conservative approach in taking credit risk which focuses on a relatively small set of financial instruments.</p>
<p>Hong Kong</p> <p>In the management of foreign exchange reserves, the HKMA has in-house methodologies to govern the eligibility and credit limit of an obligor for investments. For example, the HKMA implements an internal credit scoring system for the credit assessment of sovereign issuers and counter-parties based on a wide spectrum of factors including CRA ratings.</p> <p>As regards repos and securities lending transactions, the HKMA considers the type of the underlying collateral and its price volatility, liquidity risk, and CRA ratings in determining the eligibility and appropriate haircut requirements.</p>	<p>Yes, for foreign exchange reserves management.</p>	<p>Yes, for repos, securities lending, and routine monetary policy operations.</p>	<p>The HKMA has reduced significantly the reliance on CRA ratings in articulating the credit policy on sovereigns. In assessing the credit of a sovereign, the HKMA takes into account other credit information including its probability of default ("PD") and its key macroeconomic and financial variables in the internal credit scoring system. The HKMA then assigns relative weights to all these factors, thus forming a comprehensive analysis of the relative default risk of the sovereign issuers. Similarly, the credit assessment of counter-parties is based on a host of</p>	<p>In addition to the actions already taken, the HKMA is considering measures to strengthen the internal credit evaluation of counter-parties and other types of issuers. Specifically, the HKMA is working to refine the existing methodologies for determining their credit limits by incorporating PD in the internal credit risk system with a view to developing a forward-looking approach to credit risk management while avoiding sudden forced debt selling or abrupt termination of relationship with counter-parties upon CRA downgrades.</p>

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	Credit ratings do not play a role in routine monetary operations ; i.e., with regards to the provision of intraday and overnight liquidity			factors including CRA ratings. Furthermore, the HKMA has adopted credit default swap market-implied ratings as an alert for early detection of credit deterioration.	
India	The Reserve Bank primarily accepts only domestic government securities as collateral. For the purpose of investments, credit ratings are only one of several parameters used for assessment of risks.	N/A	N/A	N/A	N/A
Indonesia	CRA ratings are used to determine the eligibility of corporate bonds as collateral for the short term funding facility , the applicable collateral haircut, and the eligibility of banks applying for the facility. CRA ratings of the collateral are not the only measure used to decide whether a bank is eligible for the facility and the amount of funding. The use of CRA ratings is not applicable to monetary policy operations .	Yes. Although haircuts on securities used as collateral for the short term funding facility are determined according to external ratings, internal credit assessment is used to determine banks that are eligible for the short-term funding facility. Hence, banks are not guaranteed access to the facility by relying solely on the collateral they owned. Banks need to pass the internal credit assessment process and own the eligible collateral before they qualify for the facility.	Yes. Haircuts are determined according to the CRA ratings.	None.	We do not have plans to use alternative measures of creditworthiness. There is a lack of sound alternatives to CRA ratings.
Italy	In its investment policies the Bank of Italy performs an internal credit assessment of counterparties/issuers before accepting them as eligible counterparties/issuers and to set the limit framework, considering CRA ratings and other information. For those counterparties/issues for which there are no CRA ratings, the Bank of Italy uses various measures of capital adequacy and profitability among others to assess their creditworthiness, which should be at least as high as that of the counterparties with CRA ratings. For monetary policy purposes , the	See answer a). Haircuts are applied according to the criteria set out by the ECAF regardless of the source used for determining the valid p.d., be it an external or an internal source. No specific measures are therefore applied to instruments assessed with internal sources.	See answer b). No specific measure is applied to instruments assessed with external sources.	Further progress has been made in terms of an integrated view of Bank of Italy's risks on investment activity. Bank of Italy's framework for standard credit risk measures relies on issuers' default probabilities from transition matrices provided by CRA, but also stress analyses, depending on market data, are run.	The Governing Council of the ECB announced on 8 December 2011 its intention to enhance the Eurosystem's internal credit assessment capacities. This e.g. led to the acceptance, as of July 2013, of two new ICAS within the ECAF. The approval of further ICAS is pending. Main factors driving this decision were the intention to reduce reliance on rating agencies, but also the fact for many (smaller) debtors of credit claims (eligible under the Eurosystem framework) no external credit assessment exists.

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	<p>eligibility and haircuts of marketable assets are partly based on credit quality. This is determined according to the Eurosystem credit assessment framework (ECAAF), which takes into account information from i) ratings from CRAs considered as valid within the ECAAF framework (currently DBRS, Fitch Ratings, Moody's, Standard & Poor's); ii) national central banks' in-house credit assessment systems (ICASs); iii) counterparties' internal ratings-based (IRB) systems; or iv) third-party providers' rating tools (RTs). The different grades of accepted CRAs' ratings are mapped onto a harmonised rating scale with three credit quality steps. For assets other than ABS, a first-best rating rule applies, whereas ABS are subject to a second-best rule. CRA ratings are the most relevant source of credit information for marketable assets. Regardless of the CRA ratings, the Eurosystem may decide to accept, refuse, or limit securities as collateral or apply supplemental haircuts on the basis of any relevant information. (At the moment, the minimum rating threshold is suspended for marketable securities issued or guaranteed by the Irish, Greek, Cypriot and Portuguese government.)</p>				<p>As of June the new ICAS of Banca d'Italia has been approved within the valid ECAAF sources. It will replace the one (VALCRE) formerly in use for temporarily eligible credit claims only. The new fully fledged ICAS can be used for the assessment of the credit claims under the ordinary framework, while its statistical submodule is used for credit claims under temporary eligibility criteria. The use of the new ICAS should facilitate the mobilization of credit claims for which no alternative ECAAF source is available.</p>
Japan	<p>In principle, the BOJ conducts its own internal assessments to judge the eligibility of assets such as corporate bonds, which the BOJ uses both as collateral for the conventional fund supply operations and as purchasing assets for the unconventional monetary easing. In its assessments, the BOJ uses CRA ratings as one of the elements to be</p>	<p>No. Regarding the collateral, the BOJ applies haircuts as risk control measures. The level of the haircut for each asset varies with the type of its debtor (for instance, sovereign or private) and its remaining maturity. Regarding the purchasing of assets such as corporate bonds, the BOJ sets the rule of maximum outstanding</p>	<p>Please see the previous answer.</p>	<p>The BOJ started conducting its own internal credit assessment long before the FSB Principles were issued in October 2010. Since then, it has used CRA ratings merely as one of the information sources in its internal assessment. Therefore, no adjustments have been made following the release of the FSB</p>	<p>Please see the previous answer.</p>

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	<p>reviewed; specifically, obtaining a certain grade of CRA ratings is a minimum requirement in principle.</p> <p>With respect to foreign currency assets, CRA ratings can be part of our consideration, but are not mechanically tied to our eligibility assessment.</p>	<p>amount for a single issuer to be accepted.</p> <p>The internal credit assessment is used only to judge the eligibility of the assets; therefore, it does not affect the level of the risk control measures described above.</p>		Principles.	
Korea	<p>CRA ratings are not used in conjunction with open market operations or lending facilities.</p> <p>Eligible counterparts are selected once every year based on an internal credit assessment, using public and non-public information.</p> <p>Regarding foreign asset management, CRA ratings are used when choosing which securities to invest in and in reviewing counterparties.</p>	No.	<p>Yes. For open market operations, haircut ratios are applied to cover market risks. Eligible securities are limited to risk-free assets (government bonds, government-guaranteed bonds, monetary stabilization bonds.)</p> <p>For lending facilities, different collateral price recognition ratios are applied according to type of collateral.</p>	The BOK has considered the credit risks of counterparties in its annual reviews since 1977.	Reviewing introduction of internal credit assessment regarding foreign asset management
Mexico	<p>Banco de Mexico does not rely on credit ratings criteria for its open market operations since any provision of liquidity is fully collateralized by federal government securities (in addition to the applied haircut).</p> <p>On its credit standing facilities, where the range of eligible collateral is more flexible, CRA ratings are just one element considered to determine which instruments are eligible as collateral or the amount of the haircut to be applied. Additional information comes from the banking supervisor and the central bank's own assessment of market and credit risks.</p> <p>The eligibility of financial instruments and counterparties for international</p>	<p>Yes, for instruments eligible for the credit standing facilities. The central bank complements CRA ratings with its own assessment of credit risks. To determine eligibility and haircuts for certain instruments (e.g., loans), the central bank uses the Banking Supervisory Commission methodology to determine loan-loss reserves, even for borrowers rated by a CRA. Haircuts are based on a parametric method for estimating the LGD.</p> <p>Banco de México does not have an internal credit scoring model that may substitute for CRA ratings or other information provided by the CRA, such as default probabilities and rating transitions.</p>	Yes, for open market operations.	<p>Banco de México has not modified its guidelines regarding the role played by CRA ratings. CRA ratings are a major component of the policies for international reserves risk management, but their role is less important for the standing facilities. Ratings are not used to determine eligibility of collateral for open-market operations.</p> <p>The role of CRA ratings is complemented with additional evaluations, assessments and market indicators, which could modify the haircuts used.</p>	Banco de México is not planning to substitute the CRA ratings with an internal credit risk scoring model. However, the central bank has taken some actions to complement CRA ratings with alternative measures of creditworthiness. This includes enhancing its existing credit risk analysis through more balance sheet analysis and additional information (such as CDS spreads and macroeconomic indicators), conference calls with research teams and market intelligence.

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	reserves management is mainly based on CRA ratings. In addition, the central bank uses a credit risk model to determine single-name exposure limits for time deposits. The inputs for this model are CRA ratings and observable market information, such as credit default swaps spreads (from which the Risk Department extracts implied probabilities of default), the stock price returns, and the effective offered rate on time deposits.				
Netherlands	The DNB as a rule does not determine creditworthiness of counterparties, issuers or financial instruments in relations to its investment operations (foreign reserves management, domestic investments).	-	-	-	-
Russia	In the reserve management framework, the Bank of Russia has minimum credit rating requirements for counterparties and financial instruments. In addition they must be positively evaluated under the Bank of Russia's internal credit analysis. The Bank uses minimum international CRA ratings as one criterion for loan collateral selection , namely when forming the Bank's Lombard list (list of eligible securities); when forming the list of organizations, whose bills (credit claims) could be used as loan collateral; as a criterion for the credit organizations which provide guaranties for the Bank's loans, for the regions and municipalities of the Russian Federation, acting as parties liable on assets, accepted as the Bank's loan collateral. In addition, when accepting non-marketable assets as the Bank's loan collateral with the parties liable on these	No, for reserve management purposes. Once the security is accepted, the haircut depends only on (forecasted) volatility of its market price. In addition to haircuts the Bank of Russia sets credit limits on certain counterparties and securities. Credit limits on counterparties are mostly based on counterparty characteristics as well as on CRA rating, while credit limits on securities are based solely on internal credit assessment.	Yes, for the purpose of the Bank's loans. Collateral haircut values depend on the issuers' (or issues') ratings, conditions and parameters of securities circulation and other information about the issuer's financial condition.	An internal credit risk assessment system was developed starting in 2009 for counterparties and financial instruments in reserves management purposes.	The internal assessment system was developed for reserves management purposes. Nevertheless, we believe that complete avoidance of ratings in central bank activities is not practical. CRAs have experience and developed infrastructure needed for a high quality credit assessment.

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	assets having no rating corresponding to the Bank's requirements, the Bank of Russia undertakes an internal valuation. The Bank of Russia also has a minimum CRA rating for counterparties on uncollateralized loans to provide emergency liquidity in case of crisis.				
Saudi Arabia	<p>In its foreign exchange reserve management, SAMA sets counterparty limits for repo transactions based on credit ratings of the international banks by the major CRAs (Moody's, S&P and Fitch). This is complemented by an internally developed credit assessment customized to meet SAMA's own objectives as a central bank.</p> <p>SAMA does not use external credit ratings in its central bank operations such as repos or funding activities, where eligible collateral is government development bonds, t-bills, and government-guaranteed bonds.</p> <p>SAMA does not use external credit ratings in its overnight lending decisions, nor in the valuation of collateral for its interbank clearing and settlement systems.</p>	No. Risk control takes the form of restricting investments to higher quality credits with a few exceptions to sovereign names in EMEs as well as limiting exposure to a maximum of 10% of a single issue size. For repo operations, SAMA requires higher haircuts than that of the market norm.	Yes, for central bank operations (repo/funding activities).	None. SAMA has not passed, or proposed, any wide-ranging legislatives or regulatory measures to reduce reliance on CRA ratings because CRAs continue (and are likely to continue) to be of a great value for investment practitioners.	<p>None. There are no actions planned at this time.</p> <p>SAMA favours a dual approach for credit assessment processes when managing foreign reserves, one that uses major CRAs ratings as a point of reference (i.e. input), complemented by an internally developed credit assessments customized to meet SAMA's own objectives as a central bank.</p>
Singapore	There is minimal reliance on CRA ratings for collateralised Singapore dollar-denominated lending under the Intraday Liquidity Facility and the Standing Facility , because mainly Singapore government related securities are accepted. Eligible collateral also includes Singapore Dollar-denominated debt securities and sukuk issued by AAA-rated Public Sector Entities accorded a risk weight of zero under	<p>No, for the liquidity facilities. Haircuts are based on an internal assessment which takes into consideration various factors such as historical price movements of the financial instrument as well as other qualitative factors.</p> <p>Not applicable for reserves management.</p>	Yes, for the liquidity facilities.	<p>Current reliance on credit ratings in terms of collateral eligibility for the liquidity facilities is minimal.</p> <p>For reserves management, the framework has been supplemented with active monitoring, using various market-based indicators and qualitative assessments. Counterparties that have been flagged through our active monitoring may</p>	In view of how CRA ratings have historically tended to lag the market, we have been strengthening our internal credit assessment expertise on an ongoing basis and have included alternative measures of credit worthiness such as credit spreads and equity prices, amongst others.

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	MAS Notice 637. As part of the reserves risk management framework, CRA ratings serve as one of the many inputs for the assessment of credit risk. For instance, market based indicators like CDS spreads, equity prices and balance sheet ratios are considered in conjunction with CRA ratings. In addition, qualitative factors like parental and government support are considered in our assessment of counterparty credit risk. For practical reasons and ease of operations, as well as to manage MAS' risk on an overall level, some of our internal investment guidelines will continue to make reference to CRA ratings but are, and continue to be, augmented by complementary strategies. For instance, ratings from different CRAs are used to avoid knee-jerk reaction to downgrade by a single agency. Exceptions can be given on a case-by-case basis.			have their limits adjusted accordingly. These changes preceded the publication of the FSB Principles.	
South Africa	Reserves management guidelines state the minimum CRA rating that a financial instrument and a counterparty must meet in order to be considered as an eligible investment. Minimum CRA ratings are also used, by asset class, for collateral received in the securities lending programme. CRA ratings are used as input into an in-house counterparty limit allocation model for cash deposits . CRA ratings are not used in relation to monetary policy operations .	Yes, for the securities lending programme. Haircuts increase as the credit quality declines and the riskiness of asset class increases. Further to CRA ratings other credit risk information is considered such as an implicit or explicit government guarantee and issuer CDS. There is continuous monitoring of issuer CDS.	Yes. Only instruments rated by approved CRA's are considered for inclusion into the investable universe for reserves management.	The implementation of an internally developed proactive CDS model to reduce reliance CRA's and the performance of more fundamental credit risk analysis for large portfolio exposures.	For monitoring purposes, a CDS model has been developed internally, and it provides an early warning signal of possible financial vulnerability of counterparties relative to their peers. A CRA market derived signals model is also used internally.
Spain	For reserves management , CRA ratings (from S&P, Fitch and Moody's) are only used to determine counterparty eligibility and limits (in conjunction with own	Yes. For those assets whose source of credit-assessment is the ICAS, haircuts are partially based on Banco de España's internal credit	Yes. Whenever an ECAF source other than an ICAS (i.e. CRA, Rating Tools, or a counterparty's IRB-system) is used as primary credit	In the area of reserves management, given its limited reliance on CRA ratings, no concrete actions have been taken.	The Governing Council of the ECB announced on 8 December 2011 its intention to enhance the Eurosystem's internal credit assessment capacities.

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	<p>funds data) for bank deposits. For other issuers/counterparties, eligibility and limit setting is determined by an internal credit assessment based on qualitative and quantitative analysis.</p> <p>As for monetary policy implementation, CRA ratings do play a more important role. The eligibility and haircuts of marketable assets are partly based on credit quality. This is determined according to the Eurosystem credit assessment framework (ECAAF), which takes into account information from i) CRA ratings (DBRS, Fitch Ratings, Moody's, Standard & Poor's); ii) national central banks' in-house credit assessment systems (ICASs); iii) counterparties' internal ratings-based (IRB) systems; or iv) third-party providers' rating tools (RTs). The different grades of accepted CRAs' ratings are mapped onto a harmonised rating scale with three credit quality steps. For assets other than ABS, a first-best rating rule applies, whereas ABS are subject to a second-best rule. CRA ratings are the most relevant source of credit information for marketable assets. Regardless of the CRA ratings, the Eurosystem may decide to accept, refuse, or limit securities as collateral or apply supplemental haircuts on the basis of any relevant information. (At the moment, the minimum rating threshold is suspended for marketable securities issued or guaranteed by the Irish, Greek and/or Portuguese government.)</p>	assessment.	assessment source, risk control measures (i.e. valuation haircuts) are applied depending on that ECAF source's (including CRA's) risk assessment.		<p>This led to the acceptance of a new ICAS within the ECAF. The approval of further ICAS is pending. The main factors driving this decision were the intention to reduce reliance on rating agencies, but also the fact for many (smaller) debtors of credit claims (eligible under the Eurosystem framework) no external credit assessment exists.</p> <p>Banco de España's reliance on CRA ratings for reserve management is quite limited, so no specific measures have been adopted to cushion the impact of rating changes in this area.</p>
Switzerland	Within the FX reserves , the CRA ratings are used as one of the eligibility	Yes, in certain circumstances. Generally, credit risk limits and the	Yes. For the definition of credit risk limits and the eligibility of collateral,	There is no mechanistic use of CRA ratings. Depending on market	None.

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	<p>criteria for investing in fixed income, where a minimal rating is required. They also serve as one of the main criteria whether to accept a counterparty for OTC transactions.</p> <p>CRA ratings are not reflected in the allowed collateral and in the haircuts in current ISDA/CSA agreements for reserve management operations.</p> <p>Conditions for collateral accepted in monetary policy operations are among others based on minimum CRA ratings. No haircuts are applied to the collateral.</p>	<p>acceptance of collateral are based on CRA ratings, among other factors. However, in certain circumstances detailed analysis of instruments, issuers or counterparties are conducted which may lead to exceptions to the rules.</p>	<p>CRA ratings are generally used as input factors. In special circumstances, additional internal credit assessments are undertaken.</p>	<p>conditions and circumstances, exceptions to the guidelines and rules are made based on internal credit assessments. This can for example be the case to avoid signalling effects and market disruptions. The setup has been in place already before 2010.</p>	<p>Developing internal credit risk assessments would require a large amount of resources. SNB's portfolios contain a very broad range of issuers (sovereigns, corporates, supranational issuers) and counterparties (banks). Using CRA-Ratings as one of the general factors to define eligibility facilitates an efficient investment process.</p>
Turkey	<p>The Central Bank of the Republic of Turkey (the CBRT) makes its own credit assessments, not using CRA ratings, on the financial instruments that it accepts in market operations, both as collateral and as outright purchases.</p> <p>CRA ratings are taken into consideration in the risk management processes for foreign exchange reserve investments and operations. First, the Regulations that set out the Bank's risk tolerance specify the minimum CRA ratings for counterparties and financial instruments to invest. Second, the credit limits for the counterparties are determined through an internal counterparty credit risk assessment model, with CRA ratings in the information set.</p>	<p>Yes, the CBRT's internal credit assessment is used to determine risk control measures, such as haircuts, for financial instruments accepted as collateral in market operations.</p>	<p>No. Although CRA ratings determine eligibility of financial instruments for foreign exchange reserve investments and operations, no risk control measures are imposed on these instruments.</p>	<p>The Regulations were amended and the minimum CRA rating thresholds to accept a financial instrument were decreased in 2013. Therefore, the amendment not only address the change in the global risk environment and increasing foreign exchange reserves of the CBRT, but also provide flexibility to benefit from the internal credit assessment capabilities of the CBRT.</p>	<p>After the global crisis, the Foreign Exchange Risk Management division formed a group to review the existing methodologies of the credit rating agencies, develop research on the validation of existing rating systems and improve the internal credit rating assessment capabilities of the CBRT. The group is working on a sovereign credit assessment model that is going to support the risk control measures on the sovereigns.</p>
United Kingdom	<p>For monetary policy and reserves management purposes, when considering whether or not to accept an instrument as collateral or purchase it outright, the Bank of England considers a number of factors, including selected</p>	<p>Yes – for loan collateral. A thorough due diligence process is undertaken and extensive data sets are used to inform the Bank's credit judgement of the portfolio and calculate an advance rate.</p>	<p>No. We do not trade with counterparties that have not been assessed through our internal credit process, nor do we accept collateral that has not been through our internal due diligence process.</p>	<p>We have eliminated all references in the documents relating to the Bank's operations (known as the 'Red Book') e.g. splitting the high quality sovereign collateral list into two, based on internal assessments of</p>	<p>Prior to the financial crisis, CRA reports were a key input into the Bank's internal credit assessment process. The Bank has been undertaking continuous improvement to its credit assessment process, which</p>

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<p>financial information, market indicators and credit ratings. There is no mechanistic link between a credit rating and a security's eligibility in the Bank's operations. However, the Bank does use external ratings to give a guide to market participants of the approximate credit quality we require.</p> <p>Under ISDA agreements to which the Bank is party, the Bank requires that any collateral called under the CSA shall be sovereign collateral with 'a long-term debt rating by at least two CRAs (both domestic and foreign currency) of Aa3 (or equivalent) or higher.'</p> <p>Trading counterparties are rated on an internal scale using something akin to a CAMELS model (that considers capital, asset quality, market indicators (such as CDS spreads and CRA ratings), profitability, funding and liquidity; and business and strategy) to inform the judgment of a credit committee drawn from operational and policy areas of the Bank. These internal ratings then determine the size and maturity limits for trading with these counterparties.</p>	<p>The Bank has a model for determining haircuts on private sector collateral that generates estimates of probability of default and loss given default in severe macroeconomic conditions. These are then used to calculate the discounted value of cash flows and the resultant haircut. However, the Bank retains the right to add on additional haircuts e.g. for FX risk, concentration risk and other factors not captured by the model.</p>		<p>robustness of market liquidity, and removed the former AA- limit on collateral.</p>	<p>now sees it undertaking a more in-depth review of counterparty's balance sheets and a use of market indicators (e.g. CDS spreads, equity prices), combined with counterparty visits and teleconferences to develop the Bank's understanding of the counterparty's business model. As a consequence, the number of analysts on the Bank's Credit Risk Team has increased.</p>
<p>USA</p> <p>The securities used in open market operations are U.S. Treasury or agency securities for which credit ratings are not relevant.</p> <p>CRA ratings are currently used in assessing the eligibility of securities for discount window or payment system risk purposes. Some types of securities must be AAA-rated and other types of securities must be at least investment-</p>	<p>No. Securities haircuts are based on historical price volatility.</p>	<p>Yes. Securities haircuts are generally not based on internal credit assessments. Likewise, haircuts for pledged loans are typically not based on internal credit assessments. Loans are divided into minimal-risk and normal-risk categories with haircuts estimated based on individual loan type, maturity, and coupon rate.</p> <p>Reserve Banks have discretion to</p>	<p>None.</p>	<p>The Federal Reserve continues to evaluate the feasibility of developing internal credit risk assessment capabilities or use of alternative measures of creditworthiness for securities pledged as collateral for discount window or payment system risk purposes. Several options for additional credit risk assessment processes or alternatively the use of alternative measures of</p>

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Application of the basic principles to particular financial market activities (Principle III)					
III.1 Central bank operations (Principle III.1)					
	Description of the role played by CRA ratings in central bank policies	Does central bank impose risk control measures (including haircuts) on financial instruments based on internal credit assessment?	Does central bank impose risk control measures (including haircuts) on financial instruments where these have not been subject to internal credit assessment?	Details of policies for which the role played by CRA ratings has been adjusted in line with the FSB Principles	Actions taken or planned to develop central bank's internal credit risk assessment capabilities and use of alternative measures of creditworthiness
	<p>grade rated. CRA ratings are also used in establishing haircuts. Securities haircuts are generally based on historical Value-at-Risk analysis of similarly rated securities.</p> <p>CRA ratings do not play a role in foreign reserves risk management.</p>		perform internal credit assessments and adjust haircuts accordingly.		creditworthiness are being considered, including a review of the practices of industry participants. The alternative approaches will be evaluated in terms of effectiveness with respect to improved risk management, implications for financial stability, and resource requirements. In addition, the Federal Reserve continues to monitor the revised banking regulations related to permissible investments and the plans of banking supervisors to assess banks internal credit assessments.

Annex C1: Banks						
Application of the basic principles to particular financial market activities (Principle III)						
III.2 Prudential supervision of banks (Principle III.2)						
Internal Ratings Based Approaches (IRB)						
	Basel II capital adequacy framework adopted / IRB approaches permitted?	No of Banks	Proportion of total banking system end-2012	Supervisory criteria to use IRB	Supervisory approach to IRB banks	Additional measures : Develop internal credit assessment and avoid excessive reliance on CRAs
Argentina	Yes / No	N/A	N/A	N/A	N/A	N/A
Australia	Yes / Yes	5	83% of ADI RWA	IRB rating systems should essentially be in line with the requirements of the Basel framework. They should have been in use for at least 3 years prior to the approval.	On-site reviews: file reviews, override information.	N/A
Brazil	Yes / Yes	0	0	IRB rating systems should essentially be in line with the requirements of the Basel framework.	N/A	Demonstration that CRAs are used only in an auxiliary role in the calculation of the final values and also during the validation process.
Canada	Yes / Yes	11	95% of total banking system exposures	IRB rating systems should essentially be in line with the requirements of the Basel framework. In addition the regulator has published additional requirements for the validation of the risk rating system.	Cross comparison of IRB across banks (based on a hypothetical portfolio) are regularly performed. Assessment of the performance of the risk measure versus realisations is also done (Benchmarking).	Demonstration that CRAs are used only in an auxiliary role in the calculation of the final values.
China	Yes / No	All commercial banks.	All commercial banks are required to implement Basel II.	A commercial bank adopting the IRB approach should conform to the provisions in the Capital Rules for Commercial Banks and be subject to approval by the CBRC. These provisions set high requirements on banks' corporate governance and oversight to ensure the objectivity and reliability of the internal ratings results, clarify the technical standards and procedures to ensure the independence and impartiality of the internal ratings, and also outline both quantitative and qualitative risk management criteria.	A bank adopting the IRB approach will be required by the Rules to have in place a well-developed comprehensive risk management framework. Banks are encouraged to utilise their own internal historical data in risk modelling. In reviewing, approving and monitoring banks' implementation of IRB approaches and banks internal risk assessment framework, the CBRC has the right to make prudent adjustments to risk parameters and impose additional pillar 2 capital requirements if the internal credit assessment processes do not capture the full potential risks.	N/A
European Commission	Yes / Yes		N/A	IRB rating systems should essentially be in line with the requirements of the Basel framework, under the EU regulation umbrella (see the 2006 EBA Guidelines). New rules on IRB introduced with CRD IV.	CRD IV introduced "supervisory benchmarking" to assess quality of IRB approaches.	CRD IV introduces general requirements to strengthen own credit risk assessments.

Annex C1: Banks						
Application of the basic principles to particular financial market activities (Principle III)						
III.2 Prudential supervision of banks (Principle III.2)						
Internal Ratings Based Approaches (IRB)						
	Basel II capital adequacy framework adopted / IRB approaches permitted?	No of Banks	Proportion of total banking system end-2012	Supervisory criteria to use IRB	Supervisory approach to IRB banks	Additional measures : Develop internal credit assessment and avoid excessive reliance on CRAs
France	Yes / Yes	126 (June 2012)	48% of own funds requirements on credit risk (end 2011)	IRB rating systems should essentially be in line with the requirements of the Basel framework, under the EU regulation umbrella (see the 2006 EBA guidelines).	See answer by the European Commission ACP assesses the adequacy of banks' internal ratings-based systems by using a combination of on-site and off-site supervisory tools and relying notably on a Risk Modelling Control Unit. Any new banks' IRB system or significant change to an existing banks' IRB system must be approved by the ACP. IRB systems are therefore subject to strict initial and ongoing validation and ACP also conducts periodic reviews of bank's monitoring and validation of their IRB systems. Major French banking groups are also subject to the Hypothetical Portfolio Exercises being undertaken by the BCBS and the EBA.	CRAs can serve as benchmarks for testing the relevance of internal parameters.
Germany	Yes / Yes	50	47,5% of the total capital requirements	IRB rating systems should essentially be in line with the requirements of the Basel framework, under the EU regulation umbrella.	On-site reviews and audit conducted by the regulators.	There are no additional measures deviating from the respective EU regulations.
Hong Kong	Yes / Yes	8	67% of total RW amount for credit risk for all locally incorporated banks	IRB rating systems should essentially be in line with the requirements of the Basel framework.	On-site reviews covering qualitative and quantitative aspects. Assessment of the performance of the risk measure versus realisations is also done (back-testing). Comparison of risk measures generated by different IRB banks was also conducted (benchmarking).	Demonstration that CRAs are used only in an auxiliary role in the calculation of the final values. Apart from credit approval, credit monitoring and production of internal MI reports IRB banks are also expected to expand the use of internal ratings to other areas (e.g. pricing and limit setting).
India	Yes/Yes	14 major banks constituting more than 50 per cent of the banking system exposure have applied for		The approach is aligned with Basel II regulations.	The approach is aligned with Basel II regulations.	The approach is aligned with Basel II regulations.

Annex C1: Banks						
Application of the basic principles to particular financial market activities (Principle III)						
III.2 Prudential supervision of banks (Principle III.2)						
Internal Ratings Based Approaches (IRB)						
	Basel II capital adequacy framework adopted / IRB approaches permitted?	No of Banks	Proportion of total banking system end-2012	Supervisory criteria to use IRB	Supervisory approach to IRB banks	Additional measures : Develop internal credit assessment and avoid excessive reliance on CRAs
		migration to IRB approach. Reserve Bank of India is carrying out model validation/parallel run exercise which may be for a minimum period of 12-18 months. It is expected that banks that meet all IRB requirements under Basel II will be accredited to use IRB approach.				
Indonesia	Yes / No		N/A	N/A	N/A	N/A
Italy	Yes / Yes	7 (one subsidiary of a foreign bank)	75% (of total assets) After taking into account the exposures still under the SA, the coverage of IRB is reduced to 40%	IRB rating systems should essentially be in line with the requirements of the Basel framework, under the EU regulation umbrella. In addition the regulator has highlighted the importance of robust data set in IRB creation.	Banks are required to perform additional analyses: benchmark risk measures given external ratings by applying internal models. Margin of prudence required when referring to CRAs for the calculation of the PD	Comparison of CRA ratings versus measure derived from IRB tools on large corporate to benchmark both. When a PD is derived from a CRA an adequate margin of prudence is added.
Japan	Yes / Yes		66% of total credit risk assets	IRB rating systems should essentially be in line with the requirements of the Basel framework.	Banks required to disclose the outline of their policies and processes (including names of eligible CRA for securitized products).	See the answer 2 (principle II) above. The FSA inspects in detail whether banks' credit risk management is appropriate, including whether their use of the approved IRB approach is appropriate. Additionally, the FSA inspects if banks have limits on changing internal ratings compared with CRA. In the case where they change their internal rating more than 2 notches, JFSA requires them to prove the new rating's credibility.
Korea	Yes / Yes	11 out of 18	87.6% of the total banking exposures is of banks that have been approved to use IRB. 61.3% of the total banking exposures is of banks that measured	IRB rating systems should essentially be in line with the requirements of the Basel framework.	Reviews: regular monitoring, verification, third party review.	N/A

Annex C1: Banks						
Application of the basic principles to particular financial market activities (Principle III)						
III.2 Prudential supervision of banks (Principle III.2)						
Internal Ratings Based Approaches (IRB)						
	Basel II capital adequacy framework adopted / IRB approaches permitted?	No of Banks	Proportion of total banking system end-2012	Supervisory criteria to use IRB	Supervisory approach to IRB banks	Additional measures : Develop internal credit assessment and avoid excessive reliance on CRAs
			RWA based on IRB.			
Mexico			One bank has IRB approval for Revolving loans (which accounts for 70.14% of total banking system for revolving loans. The other bank that has IRB approval for some segments of Commercial Loans (which accounts for 13% of total banking system for commercial loans)	IRB rating systems should essentially be in line with the requirements of the Basel framework. In addition the regulator has highlighted the importance of robust data set in IRB creation.		
Netherlands	Yes / Yes	12	75% of the assets under supervision	N/A	N/A	N/A
Russia	Yes / Not yet but soon	N/A	N/A	N/A	N/A	N/A
Saudi Arabia	Yes / Yes	1	13%	IRB rating systems should essentially be in line with the requirements of the Basel framework.	Risk based supervision is practiced. It includes all elements of the Supervisory review process including supervisory meetings, inspections, validations and the ICAAP process.	Demonstration that CRAs are used only in an auxiliary role in the calculation of the final values. Supervisor has guided banks to develop a National Data Pool for benchmarking.
Singapore	Yes / Yes	3	83% of total exposures of Singapore-incorporated banks	IRB rating systems should essentially be in line with the requirements of the Basel framework.	On-site and off-site reviews covering qualitative and quantitative aspects.	Bank should not rely on CRA's ratings for its credit assessment.
South Africa	Yes / Yes	5 (4 local banks and 1 branch of a foreign bank)	83.56 % of total banking exposure	IRB criteria essentially in line with the requirements of the Basel framework. In addition the regulator has highlighted the importance of robust data set in IRB creation, or if not available expert opinion.	The BSD has in place a robust Supervisory Review and Evaluation Process that includes on-site and off-site supervision, including on-site reviews covering the relevant required qualitative and quantitative aspects. Assessment of the performance of the risk measure versus realisations is also done (Benchmarking).	The regulatory and supervisory framework complies with internationally agreed frameworks, standards and requirements, such as Basel II and Basel III, and international best market practices, with sufficient checks and balances in place, including requirements related to internal credit assessment, to prevent an inappropriate use of or overreliance on CRAs for risk management and capital adequacy purposes.

Annex C1: Banks						
Application of the basic principles to particular financial market activities (Principle III)						
III.2 Prudential supervision of banks (Principle III.2)						
Internal Ratings Based Approaches (IRB)						
	Basel II capital adequacy framework adopted / IRB approaches permitted?	No of Banks	Proportion of total banking system end-2012	Supervisory criteria to use IRB	Supervisory approach to IRB banks	Additional measures : Develop internal credit assessment and avoid excessive reliance on CRAs
Spain	Yes / Yes	8 spanish groups + 6 foreign subsidiaries	40% of total spanish banking system exposures in EAD terms	IRB rating systems should essentially be in line with the requirements of the Basel framework, under the EU regulation umbrella. In addition the regulator has highlighted the importance of robust data set in IRB creation.	On-site and off-site reviews covering qualitative and quantitative aspects. Assessment of the performance of the risk measure versus realisations is also done (Benchmarking).	Specific documents have been published by the regulator to clarify and harmonise certain minimum criteria for some specific issues or portfolios (see e.g. Downturn LGDs for mortgage portfolio in Spain)
Switzerland	Yes / Yes	6 (systemically relevant banks, some locally important banks, and some subsidiaries of foreign systemically important banks)	65% of credit exposures	IRB rating systems should essentially be in line with the requirements of the Basel framework.	Assessment of the performance of the risk measure versus realisations is also done (Benchmarking).	Demonstration that CRAs are used only in an auxiliary role in the calculation of the final values. CRA play also a role for validation or benchmarking exercise of the IRB.
Turkey	Not yet but soon / No	0	N/A	N/A	N/A	N/A
UK	Yes / Yes	25	60% of total banking system	IRB rating systems should essentially be in line with the requirements of the Basel framework.	N/A	Demonstration that CRAs are used only in an auxiliary role in the internal credit assessment and decision values.
USA	Yes / Yes	17 (advanced approaches end-2011 and core banks only)	95% of all international exposures held by US banking organizations.	Prior to implementing the advanced approaches, a transitional parallel run occurs. A satisfactory parallel run consists of 4 consecutive calendar quarters of compliance with qualification requirements of the advanced approaches. During the parallel run and thereafter (i.e., as of full implementation of the advanced approaches), a bank must calculate RWAs under two capital rules (Basel II Advanced versus Basel I (until Dec. 31, 2014) or standardized approach (as of Jan. 1, 2015). The bank must use the lower of the two capital ratios in determining compliance with regulatory minimums.	N/A	Supplement the use of CRAs with internal due diligence processes and additional analyses. Demonstration that CRAs are used only in an auxiliary role in the calculation of the final values.

Annex C1: Banks				
Application of the basic principles to particular financial market activities (Principle III)				
III.2 Prudential supervision of banks (Principle III.2)				
Standardised Approach (SA)				
	No of banks using SA	Supervisory measures to avoid excessive reliance on CRAs in Internal credit assessment	Supervisory plans to migrate banks to IRB ?	Obstacles to IRB adoption ?
Argentina	All the Deposit-taking institutions	When moving from Basel I to the Basel II Standardised Approach, the Central Bank: 1) replaced references to CRA ratings with the pertinent weights; 2) issued guidelines on risk management, i.e., banks have to have in place internal systems and processes to identify, assess, monitor, control and report credit risks.	N/A	
Australia	22 banks and 96 credit unions/building societies	Must have appropriate due diligence and internal assessment process.	N/A	Level of sophistication and resources
Brazil	0 (use of the Simplified SA)	Risk-weights are established by the regulator under the SSA.	N/A	
Canada	64	Regular credit reviews, risk monitoring and ICAAP reporting and reviews.	N/A	Limitations in data availability and systems
China	All 511 commercial banks in China are required to adopt the standardised approach in line with the Basel framework.	In line with Basel III and FSB Principles for Reducing Reliance on Credit Rating Agency, The Capital Rules for Commercial Banks in China minimizes the use external ratings in the standardised approach. For example, risk assessment on corporate exposures and exposures on domestic financial institutions do not rely on external ratings. The use of external ratings is only limited in context of sovereign ratings, and the Rules also specify the external ratings use code. Commercial banks are required to conduct due diligence processes and prudently choose and use qualified external credit assessment.	Banks are encouraged to establish databases and continually improve the quality of internal data. Where a commercial bank applies for using IRB approach, the asset covered should not be lower than 50% of the total assets at the time of application and such coverage ratio should reach 80% in three years.	N/A
European Commission	N/A	N/A	CRD IV + cf Spain	Costs and burden for small and medium banks.
France	530 (52% of own funds requirements on credit risk in the entire banking system)	Must have appropriate due diligence and internal assessment process.	Regulatory capital framework already provides incentives.	Limitations in credit assessment capacities (size and resources)
Germany	1797	Must have appropriate internal assessment process.	Regulatory capital framework already provides incentives.	Limitations due to costs and resources
Hong-Kong	26/59	Must have appropriate due diligence and internal assessment process. Currently developing a guideline to strengthen requirements for structured products.	Regulator encourages banks to develop an Internal risk rating system, as this would be considered a positive factor in the bank analysis.	Limitations in credit assessment capacities (expertise and resource)
India	All scheduled commercial banks.	Banks to adopt appropriate due diligence and internal assessment process. Also required to build up a system of regular tracking of the financial position of the issuer, stipulate entry level minimum ratings/quality standards and to put in place proper risk management systems for capturing and analysing the risk in respect of their investments and taking remedial measures in time. The systems and processes adopted by the bank are reviewed during on-site inspection.	All banks are not expected to migrate to IRB approach as it may not be cost effective for smaller banks and /or banks with simple business models to migrate to advanced approaches under Basel II.	-

Annex C1: Banks				
Application of the basic principles to particular financial market activities (Principle III)				
III.2 Prudential supervision of banks (Principle III.2)				
Standardised Approach (SA)				
	No of banks using SA	Supervisory measures to avoid excessive reliance on CRAs in Internal credit assessment	Supervisory plans to migrate banks to IRB ?	Obstacles to IRB adoption ?
Indonesia	120	See response in general section	N/A	Limitations in data availability
Italy	25% of the total assets, 60% of total exposures	Must have appropriate due diligence and internal assessment process. But CRAs play a minor role due to the importance of SMEs loans in bank's portfolio.	N/A	Limitations due to complexity and resources
Japan	123	On securitized products, banks are required to have a system for obtaining information on comprehensive risk profiles and performance of those.	N/A	Costs and burden for small and medium banks and regional financial institutions (business scale and limited resources : personnel and expenses)
Korea	7	Credit rating process is reviewed (regular monitoring, verification process, third party review)	N/A	
Mexico	All 47 banks for consumer, mortgage and commercial loan portfolio	Regulators have developed specific scorecard for several type of credit exposure, within such only the presence/absence of CRAs rating is used, not their value (for corporate).	Regulators have developed credit risk methodologies based on all data coming from different banks, thus there exist a natural incentives for a bank to develop its own model to capture better its own risk profile.	Limitations in credit assessment capacities (expertise, data and resource)
Netherlands	N/A	N/A	N/A	
Russia	All banks (use of the Simplified SA)	N/A	Work on developing draft regulations in progress	
Saudi Arabia	11	Banks should have an internal credit classification system.	Banks are required to make plans for migration to IRB approach according to their own needs and capabilities. However the plans are discussed with supervisor and time lines are agreed.	Limitations on data availability and portfolio size.
Singapore	One Singapore incorporated bank and all Singapore merchant bank	Must have appropriate due diligence prior to the use of CRA's rating and form own opinion on the adequacy of regulatory risk weight.	N/A	
South Africa	25	The regulatory and supervisory framework complies with internationally agreed frameworks, standards and requirements, such as Basel II and Basel III, and international best market practices, with sufficient checks and balances in place, including requirements related to internal credit assessment, to prevent an inappropriate use of or overreliance on CRAs for risk management and capital adequacy purposes. Banks should have in place a robust internal credit classification system.	N/A	Limitations due to complexity and resources (and costs)
Spain	104 (as their only approach)	N/A	N/A	Limitations on the capacity of small institutions to carry their own assessment.

Annex C1: Banks				
Application of the basic principles to particular financial market activities (Principle III)				
III.2 Prudential supervision of banks (Principle III.2)				
Standardised Approach (SA)				
	No of banks using SA	Supervisory measures to avoid excessive reliance on CRAs in Internal credit assessment	Supervisory plans to migrate banks to IRB ?	Obstacles to IRB adoption ?
Switzerland	306/312 (=35% of exposure)	CRAs play a minor role due to the importance of SMEs/retail loans in bank's portfolio. Currently reviewing areas where ratings are playing a role (liquidity ratios and trigger).	No plans by Supervisors; banks might be inclined to apply for IRB due to pressures from their peers.	Limitations in credit assessment capacities (staff size and IT resources)
Turkey	All banks	Banks are not willing to apply CRA ratings to determine their capital requirements. More than half of the banks do not use credit ratings and the remaining only for a few risk classes	N/A	Limitations on data availability. Lack of incentive for small banks versus the cost it entails.
UK	151	N/A	N/A	Limitations in credit assessment capacities (non-availability of data, lack of simplicity and technical challenges)
USA	None, although the recently adopted US standardized approach becomes effective in 2015.	The US standardized approach includes alternatives to CRAs ratings (OECD Country Risk assessments for sovereign exposures and a formula-based approach for securitization exposures), as well as the alternative standard for determining whether a security is "investment grade".)		Regulatory costs and burden for those banking organizations that are not large, internationally active firms, in addition to limitations in data availability.

Annex C1: Banks			
Application of the basic principles to particular financial market activities (Principle III)			
III.2 Prudential supervision of banks (Principle III.2)			
Other prudential policies			
	Are any banks subject neither to IRB nor to SA?	Measures taken by supervisor to avoid excessive reliance on CRAs	Role of CRAs? Measure to avoid reliance in these areas
Argentina	No	N/A	No references in the liquidity risk management.
Australia	No	N/A	References to CRA ratings in the following areas: Liquidity: CRAs have a role in determining whether assets qualify as high quality liquid assets (IG), a new version of the prudential standards has reduced this reliance. Securitisation: CRAs have a role in calculating regulatory capital for credit risk (only use CRA assessments that are disclosed to other entities) but the use of a CRA should be consistent across a given type of securitization exposure and across capital structure of a transaction.
Brazil	Yes - Simplified Standardized Approach	N/A	None
Canada	No at national level. Yes for Deposit-taking institutions regulated at provincial level (outside of the supervisor purview)	N/A	N/A
China	N/A	N/A	N/A
European Commission	N/A	N/A	N/A
France	No	N/A	N/A
Germany	No	See answer by the European Commission	There are no other specific requirements (e.g. relating to liquidity risk management) which are connected to the existence of external ratings.
Hong Kong	Small banks with total assets < HK\$10 bn simple and straightforward business operations can use Basic Approach (Basel I Framework) : 25 banks use BA (0.46% of Total assets)	No references to CRAs in BA + see response for SA	Reference in the liquidity risk management, but not a predominant role. Such reliance on CRA ratings is currently reviewed (to be completed in January 2015).
India	The Indian banking system is dominated by scheduled commercial banks and other smaller deposit-taking institutions ²⁹ account for around 11% of total banking sector assets (as on end-March 2011). These smaller institutions are not subject to Basel II capital regime as yet. The urban co-operative banks numbering around 3000 with a 4 percent share in total banking sector assets follow the Basel I capital regime including capital requirement for market risks (the minimum Capital to Risk Assets Ratio that is expected to be maintained is 9 per cent)	The smaller deposit taking institutions, especially urban co-operative banks are required to put in place appropriate internal control systems, IT infrastructure and adequate risk management systems to reduce excessive reliance on CRAs. The systems and processes are reviewed during the onsite supervision of these institutions. Additionally, the large majority of the non-retail clientele of such banks are small and medium businesses which may not themselves be rated and hence banks will necessarily need to rely on their internal credit assessment for their lending decisions.	CRA ratings are used only for the purpose of capital adequacy. The ratings are not used in other prudential policies such as liquidity policies. As such no measures to reduce such reliance are currently necessary.

²⁹ The smaller deposit-taking institutions comprise of urban co-operative banks and rural-cooperative banks

Annex C1: Banks			
Application of the basic principles to particular financial market activities (Principle III)			
III.2 Prudential supervision of banks (Principle III.2)			
Other prudential policies			
	Are any banks subject neither to IRB nor to SA?	Measures taken by supervisor to avoid excessive reliance on CRAs	Role of CRAs? Measure to avoid reliance in these areas
	The rural co-operative banks are not yet under the Basel I regime, though there are capital adequacy requirements.		
Indonesia	Small banks use a less risk sensitive capital approach similar to Basel I (1.58% of total assets of commercial banks)		Not yet implemented Basel III Liquidity framework
Italy	N/A	N/A	N/A
Japan	No	N/A	Supervisor inspects whether banks review their liquidity risk management based on various criteria items which includes other than CRAs.
Korea	N/A	N/A	N/A
Mexico	No, all banks are subject either to the SA or IRB Approaches.	SA Provision Methodologies developed by supervisor avoid dependence on CRA criteria. Regarding IRB, the supervisor does not allow CRA mapping methodologies.	CRA ratings are used only for the purpose of capital adequacy. The ratings are not used in other prudential policies such as liquidity policies. As such no measures to reduce such reliance are currently necessary.
Netherlands	N/A	N/A	N/A
Russia	All banks are using Simplified Standardized Approach	Recommendations on internal capital adequacy assessments procedures (ICAAP) (Letter No 96-T as of Jun 29, 2011).	References to CRA ratings in the following area: Cap on the risk weights: for some assets CRAs rating are used to determine a cap on the risk weights Haircut on Repo collateral: CRA ratings will define such haircuts Qualification as Eligible collateral: instruments are qualified as eligible collateral to reduce loan loss provisions based on CRA ratings.
Saudi Arabia	No	There is no need for any supervisory action in this area.	Reference in the Capital Adequacy and liquidity risk management areas in line with Basel requirements
Singapore	Finance companies which are taking deposit (1% of total Singapore deposit): Basel I approach	N/A	N/A
South Africa	3 mutual banks and 1 co-operative bank (similar to Basel I approach); less than 0.05% of total credit exposure.	No reliance on CRAs	Reference in the liquidity risk management.
Spain	No	N/A	N/A
Switzerland	No	N/A	N/A
Turkey	No	N/A	N/A
UK	No	N/A	Reference in the liquidity risk management.
USA	All banking organizations currently are subject to the Basel I-based risk-based capital rules. Starting in 2015, banking organizations will be subject to the US standardized approach. For advanced approaches banks, the Basel I-based capital rules operate as a floor until Dec. 31, 2014. As of Jan. 1, 2015, the US standardized approach will operate as the floor for advanced approaches banks.		Regulators have not yet defined a proposed rule to implement the liquidity risk management. However the intention of the US regulator is not to rely on CRA ratings to define liquid investments.

	Annex C2 : Insurance / Reinsurance Companies				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Argentina	Regulation SSN N° 21523. Section 35 on Investment Policies for insurance and reinsurance companies.	None remaining.	None considered.	Insurers are limited to low-risk admissible assets.	Since the admissible assets are established in the law, there are not such procedures.
Australia	No references have been removed to date.	A specified range of Prudential Standards and Guides (in support of legislation on assets and capital management) provide references to CRA ratings.	For the purposes of a standard calculation method for insurer capital, no viable alternative option to the usage of credit ratings were identified. Alternative standards of assessment are used in conjunction with the CRA ratings to assess creditworthiness. Examples include the requirement that for capital and risk management insurers have their own standard of assessment.	APRA has supervisory processes and procedures used to check the adequacy of the internal credit assessment processes such as active off-site and on-site assessments and weaknesses may trigger a range of supervisory responses. Insurers must have a written Risk Management Strategy as part of its risk management framework. APRA expects insurers to not solely rely on assessments of credit rating agencies when determining the credit risks to which they are exposed.	Firms use internal ratings only in specified circumstances and only after prior approval by APRA. APRA reviews the operation of internal ratings approaches as part of its normal on-going supervision processes.
Brazil	Art. 14, §3°, CNSP Regulation n° 168/2007 Art. 4, Annex I, II, "e" and "f", CMN Resolution n° 3.308/2005.	Limited remaining law, regulations and supporting circulars.	Improved transparency on alternative risk management routes. Specific exclusion of mandatory use of CRA ratings.	Improvement of the Insurance Company own credit risk analysis, improvement of the CRAs' rating dependence.	-
Canada	A review of legislation and supporting regulations has found no such references.	-	-	Active off-site and on-site risk reviews with specific actions for non-compliance.	Restricted admissibility of assets means that no action is perceived to be needed (barring exceptional circumstances).
China	No references were removed. Their use is very limited.	-	With the improvement of insurance companies' internal credit assessment capability, regulators will consider to gradually lower or cancel the hard and fast rule of regulations on external credit rating of investment tools, to give the responsibility of credit assessment to insurance companies, and let the insurance companies make investment decisions based on their internal credit assessment results.	Setting forth the basic requirements for insurance institutions' credit risk management. On-site and off-site assessment on the internal credit risk assessment process and capacity of the insurance companies is carried on by regulator.	According to regulations, the personnel for rating the credit shall take full account of possible fluctuation existing in the macro economy, specific industries and business management of the bond issuing body, carry out comprehensive and prudent assessment on the management and financial status, bond risk-return profile and other risks involved. Requirement on constraint of credit enhancement and limit the up-grade of bonds with credit enhancement based on prudent principle.
European	N/A (also see entries for EU members)	The existing insurance and reinsurances directives (collectively)	Currently CRA ratings are not used to assess creditworthiness in EIOPA	As explained alongside, EIOPA is developing guidelines on internal	Under the Solvency II regime, capital requirements are calculated using a

	Annex C2 : Insurance / Reinsurance Companies				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Commission		known as Solvency I) do not contain references to ratings. The Solvency II Directive that was politically agreed in 2009 does not contain any explicit references to credit ratings. The Solvency II Directive is currently being amended by the Omnibus II Directive to reflect the powers of EIOPA. The text of Omnibus II is still being negotiated and is therefore not publicly available. However, it is likely to foresee the limited use of external credit ratings to rank credit risks in the implementing measures on the standard formula Solvency Capital Requirement (SCR) calculation. This is similar to the approach adopted in the banking sector.	guidelines or technical standards. However EIOPA is developing implementing technical standards on allocation (mapping) of credit ratings to credit quality steps which is necessary to apply the standard formula as it stands in the draft implementing measures of Solvency II. The technical standards will not replace references to ratings but an alternative will be provided by accompanying guidelines requiring use of internal ratings on comply or explain basis.	ratings on comply or explain basis which will include rules for adequacy of own credit assessment processes.	standard formula or, subject to supervisory approval, a full or partial internal model. The approval and ongoing use of internal models are subject to stringent requirements including standards on statistical quality, calibration and documentation. Crucially, the insurer or reinsurer must demonstrate that the internal model is widely used in and plays an important role in the company's system of governance, risk management and decision making process (the "use test"). This requirement mitigates the risk that there is an upward bias in firms' internal ratings.
France	Nothing in current system ("Solvency I")	N/A	N/A	Internal models that insurers or reinsurers will seek to use for regulatory purpose under the Solvency II regime will be subject to approval of ACP. ACP will use combination of on-site and off-site supervisory tools and rely notably on a dedicated Internal Models Unit (Unit that is part of a cross-functional and specialised insurance supervision directorate).	N/A
Germany	References in circular 4/2011 (VA) section B.2.3.c.ii and B.3.1.c. (Guidance Notes on the Investment of Restricted Assets of Insurance Undertakings)	No references in laws (VAG, VVG)	Internal rating (circular 4/2011 (VA) section B.2.3.c.ii.) "External ratings must be issued by recognised rating agencies; credit quality may also be assessed by the insurance undertaking itself (internal rating), and such a procedure may be appropriate to avoid dependencies on rating agencies if the insurance undertaking has the personnel and technical resources necessary to do so, taking into account the nature of the investment. Additional criteria such as	For the moment there are no standardised supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes in respect of insurance/reinsurance companies.	<u>Circular 4/2011 (VA) section B.3.1.c.</u> "An insurance undertaking's own internal rating may only be recognised if it has the personnel and technical resources necessary to perform such a rating, taking into account the nature of the investment."

	Annex C2 : Insurance / Reinsurance Companies				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
			liable capital or the inclusion of credit default swap spreads may be specified, and the credit value at risk may also be calculated."		
Hong Kong	N/A	Regulation plus guidance on reinsurance and asset management.	Nothing specific. Reliant on traditional insurance business model (low reliance on CRA Ratings) and active monitoring of change.	Reliant on implementation of relevant IAIS ICPs.	Please refer to column 3 on the left.
India	-	IRDA Investment Regulations 2000 Note for the purpose of Regulation 3 to 8 .	The existing regulatory framework also has the inbuilt checks so that the ratings of the CRAs should not be over emphasized.	Matter would be referred to Expert advisory committee called Committee on Investments, Expenditure and ULIP issues.	-
Indonesia	-	-	-	-	-
Italy	N/A	IVASS Regulation 36, Article 11(3) IVASS Circular 574/D (Generally, these references are aimed at avoiding that the investment policy of insurance undertakings relies only on the use of external ratings)	Regulations encouraging self-assessment of risk (in line with IAIS ICPs). On July 22, 2013, IVASS, within an initiative coordinated with Bank of Italy, CONSOB and COVIP, issued a communication on the use of ratings in the investment choices of insurance undertakings. The communication is aimed at reducing over-reliance on credit ratings ³⁰ .	Requirement for internal systems to be in place to internally assess relevant risk, albeit that limited reliance is observed.	See response in previous column.
Japan	None, but supervisory guidelines have been changed.	A notice for selection of eligible CRA that may be used for calculation of capital ratio.	Indirectly, through tighter controls over CRA registration.	Regulation focusing on use of CRA ratings by market participants, followed by a specified review process and a set of instructions designed to change market participants' activity where applicable.	JFSA inspects if insurance companies have limits on changing internal ratings compared with CRA. In the case where they change their internal rating more than 2 notches, JFSA requires them to prove the new rating's credibility.
Korea	N/A	Article 63 of Enforcement Decree of the Insurance Business Act Chapter 4(Credit Risk) of the Detailed Regulation on Supervision of Insurance Business "Attachment 22".	Potential adoption of RBC internal model as means of assessment of risk management. (Each insurance company would then calculate its own credit risk)	Improved assessment of reinsurance contracts	N/A

³⁰ See http://www.ivass.it/ivass_cms/docs/F13648/Lettera%20al%20mercato%20su%20utilizzo%20giudizi%20agenzie%20di%20rating.pdf

	Annex C2 : Insurance / Reinsurance Companies				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Mexico	None in old law.	The new law and supporting regulation (April 2013) is more specific about credit ratings and their assessment. There are no other relevant references.	N/A	Authority can verify that the institutions make an accurate measurement of risks through in situ or extra situ supervision and this does happen in practice	N/A
Netherlands	Most of the references to ratings derive from European Regulations or Directives. Reliance on ratings in The Netherlands is relatively low	-	-	-	-
Russia	-	Two specific Orders (on allocation of insurance reserves and composition and structure of assets)	-	No activity at this stage	-
Saudi Arabia	None	Three relevant articles in the regulations relating to investment (2) and reinsurance (1).	Regular inspection and encouragement of alternative risk management approaches.	Principles and minimum standards on risk management expected from market participants are in place, as are implementation and control frameworks for their application. Supervisory review process including inspections, validations and supervisory meeting are applied	None
Singapore	None	Counterparty risk requirement references in Valuation and Capital Regulations.	Currently conducting review of the current RBC framework and will stress the importance of own credit assessments under relevant sections.	Incorporated into on-site and off-site review process	Officers will assess any own credit assessments as part of on-site inspections of firms.
South Africa	None	Asset related references in both Short Term and Long Term Insurance Acts. Details have been provided separately.	Under review as part of current Solvency Assessment and Management (SAM) programme.	None currently. Under the new SAM regime, insurers will be required to have in place and effective risk management framework; including effective monitoring and management of credit risk (interim measures are expected to be introduced by 2014).	None
Spain	Going further of the situation mentioned in relation with Solvency I, we have nowadays some aspects of our regulation where an express reference to the CRA ratings is included.	Solvency I. Existing framework for insurance and reinsurances directives does not contain references to ratings. See EC response for Solvency II	Nothing direct, but current regulation allows detection of problems in the creditworthiness of the financial instruments through the mark to market valuation of the assets.	-	-
Switzerland	No references have been removed to date.	Neither the Insurance Supervision Act (ISA) nor the Insurance Supervision Ordinance (ISO) makes any reference to CRA ratings; the ISO however makes reference to the notion of a	None	Procedures caution against overreliance of CRA ratings. Also, internal models are carefully reviewed by the supervisory authority.	Regarding internal risk model for solvency in the Swiss Solvency Test, the supervisor requires insurance companies to thoroughly document their processes regarding credit risk

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		risk-free yield curve. Circulars make detailed references to CRA ratings or the risk-free yield curve.			management. It can enforce capital add-ons in case the counterparty credit risk against one obligor is deemed too high.
Turkey	-	-Regulations on financial structures and measurement and assessment of capital requirements -Communiqué on foreign assets on which the technical reserves of insurance, reinsurance, and pension companies can be invested	None	The risk management systems of insurance, reinsurance and pension companies are supervised during an on-site supervision which focuses on internal systems.	There is no process and procedure used regarding this issue. CRA ratings do not play a major role in the Turkish insurance sector, since they are only effective in determining the reinsurance companies that the insurance companies will cede their risks and foreign financial assets that they will invest which will be used as a cover of technical provisions. For the assets except those used as a cover for technical provisions there is not a reference to CRA ratings, companies are free to choose which assets to invest.
UK	Prudential Sourcebook for Insurers INSPRU 1.3 (which applies to larger life insurers)	INSPRU 1.3 (but only to a very limited extent)	N/A	In support of Supervision, Risk Specialist Division, undertake Technical Risk Reviews (TRR) on the PRA's regulated firms. TRRs cover, inter-alia, commercial and business risks, risk management competence, models and stress and scenario testing, and it is through these that the PRA checks the adequacy of firms' credit assessment processes.	Where firms' investment portfolios are materially invested in non-rated assets or have material exposure to non-rated reinsurers, Risk Specialist Division and Actuarial routinely assess (as part of the Individual Capital Assessment) the capital measures and credit assessment processes which drive these values.
USA	The Purposes and Procedures Manual of the Securities Valuation Office of the NAIC was revised following state regulators' action relative to mortgage backed securities (MBS).	N/A	-	The risk-focused examination process utilized by state insurance regulators, albeit not prescriptive, requires that state insurance examiners and financial analysts engage with insurers on issues related to the risk profile of the companies.	State insurance regulators have access to tools that compare credit designations assigned by insurers with other sources to ensure consistency. U.S. insurers are not permitted to assign internal ratings except as an interim step before a CRA Rating is received or before the NAIC's Securities Valuation Office assigns an NAIC designation for any bond or preferred stock that does not have a CRA Rating.

	Annex C3: Investment Funds management (including collective investment schemes , alternative investment schemes, occupational retirement schemes, occupational retirement schemes)				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Argentina	Section 74, subsection q) of Law No. 24,241 (modified by Section 5 of Law 26,222). The Retirement Fund (FGS, Sustainability Guarantee Fund) can be invested, up to 20% of the total portfolio, in debt securities and securitization instruments destined to finance infrastructure and productive projects. These investments need not be rated. The Executive Committee of the FGS established that for the investments of section 74, subsection q), an assessment by a National University and a report by the MECON will be required.	-	In 2009, the FGS's Executive Committee established that investments in medium and long term productive projects or infrastructure programs not rated by a CRA registered with the CNV must be assessed by a National University (located in the region of the project). The assessment has to take into account the economic and financial viability of the project, the economic impact at regional or national levels, especially as regards job creation and the additional tax revenues that are partially transferred to ANSES.	Within the FGS's Investment Management Department there's a Credit Risk Department which produces monthly and quarterly reports regarding credit ratings of the assets in the portfolio. This analysis consists in monitoring changes in CRA ratings and in evaluating its pertinence and relevance.	The Credit Risk Department does not have a specific process to this effect.
Australia	Australian law and regulation for collective investment schemes (CIS) does not provide for references to CRA ratings. APRA expects superannuation entities (occupational retirement schemes) to have their own view on the creditworthiness of obligors even though external ratings might constitute an input into that view or where there are references in laws and legislation. Alternative standards of assessment are used in conjunction with the CRA ratings to assess creditworthiness.	N/A	APRA has alternative standards of assessment for the purpose of superannuation entities (occupational retirement schemes). APRA has finalised new data reporting requirements for trustees of occupational retirement schemes (superannuation). These requirements include, inter alia, detailed obligations relating to the reporting of investments in both aggregate and disaggregate form. Entities will be required to report specific information about the ratings for investments, where that information is available, on a number of reporting forms. This requires entities to record the ratings applying to an investment, but the prudential requirements in the prudential standards and guidance prohibit the trustee from relying solely on information provided by ratings agencies when selecting investments.	ASIC monitors the conduct of operators of CIS, which may include a targeted surveillance or reactive surveillance to address risk arising from credit assessment processes. APRA has supervisory processes and procedures to check the adequacy of market participants credit assessment processes weaknesses may trigger a range of supervisory responses. APRA's <i>Prudential Standard SPS 530 Investment Governance</i> requires trustees to have in place, as part of its investment governance framework, a process for selecting each investment to give effect to the investment strategy for the entity. This requires the trustee to ensure that effective due diligence commensurate with the nature and characteristics of the investment is undertaken. APRA is also developing a suite of prudential guidance material relating to investment governance, clarifying that	As noted in previous column, ASIC monitors the conduct of operators of CIS, which may include a targeted surveillance or reactive surveillance to address risk arising from credit assessment processes. This may include consideration of upward biases in firms' internal ratings. APRA checks through onsite and offsite supervisory processes that superannuation entities do not solely rely on external ratings in selecting investment options.

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				a trustee is expected to do more than just rely on the opinion of external advisors when deciding whether an investment is appropriate.	
Brazil	CVM Rule 409/2004 articles 93, paragraph 1, and 94, I, b.	-Resolution CMN 3.792/2009 article 30, paragraphs 1 and 3. -Resolution CMN 3.922/2010 article 7, V; Art. 15, paragraph 2; article 7, III and IV, and paragraph 3, I; article 7, VI and VII, "a", and paragraph 4, I; article 7, VII, "b", and paragraph 3, I.	As mentioned before, the new investment manager rule, that will replace the CVM Rule 306/1999, establish that every investment management firm should develop its own investment risk area, with an independent director responsible for the area. The new rule is expected to be published on the beginning of 2014.	Every year, investment manager firms must file a form in CVM, which contains several reports of their business. In the new investment management rule to be published, there will be a form's item corresponding exactly to the risk management area and its director, as exposed above. This form is reviewed on an annually basis by CVM, who has the power to supervise the eventual improper information found.	As the rule has not been published yet, there was no inspection.
Canada	<i>-Solvency Funding Relief Regulations (SOR/2006-275)</i> Subsection 1(1) <i>-Solvency Funding Relief Regulations (SOR/2009-182)</i> Subsection 1(1) These regulations will no longer be in force as of 2019.	-National Instrument 81-102 Mutual Funds Section 1.1 "Definitions" Section 2.7 "Transactions in Specified Derivatives for Hedging and Non-hedging Purposes" Section 2.12 "Securities Loans" Section 2.18 "Money Market Fund" Section 4.1 "Prohibited Investments" -National Instrument 81-106 Investment Fund Continuous Disclosure Section 3.5(6) "Statement of Investment Portfolio" -Income Tax Act (R.S.C., 1985, c. 1 (5th Supp.)) Section 204, definition of 'Qualified Investment' -Income Tax Regulations (C.R.C., c. 945) Paragraph 4900(1)(j.2) -Pension Benefits Standards Regulations, 1985 (SOR/87-19) Subsection 9.1(1)	We have not developed any alternative standards of assessment for the purpose of replacing references to CRA ratings at this time. We will continue to monitor international developments regarding appropriate alternative proxies to credit ratings.	None noted at this time.	None noted at this time.
China	None.	-Article 4 of "MMFs Interim Provisions"	None.	-	-

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		-Article 5, "Management Trial Method on Qualified Domestic Investors Invest in Foreign Securities" -Article 13, "Notice on Securities Investment Funds Investing in ABS" -Article 1 and Article 3, "Notice on MMFs Investing in Short-term Financing Bonds"			
European Commission	Relevant EU Directives have no references to credit ratings: Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision (IORP) ³¹ Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) ³² Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings (AIFMD)	N/A	N/A	N/A	N/A
France	AMF instructions 2001-19, 2011-20, 2011-21 and 2012-06 relative to the prospectus of UCITS, non UCITS, employees savings schemes and "contractual" funds. Part of these instructions is the exact transposition of the 2010 CESR guidelines on money market funds. In the guidelines, it is explained that "the fund ensures the money market instruments it invests in are of high quality, as determined by the	Article 6 of Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions. The reference in the third indent of Article 19(1)(h) of Directive 85/611/EEC to an establishment	Yes. For money market funds, even if there is a reference to the CRA, the manager of the fund remains the only one responsible for the determination of the creditworthiness of the asset. Indeed, the guidelines explain that "However, when assessing the quality of a money market instrument, management companies should not only rely on ratings of the instrument provided by credit rating agencies but should take into account other	The credit assessment processes must be described within the funds legal documentation under the responsibility of the manager. Funds managers or their counsels have to use an intelligible and knowledgeable wording to enable investors to quickly understand such assessment processes. The AMF is fully competent to question any credit assessment processes if necessary.	The AMF checks if the manager's procedures are detailed with regard to its valuation and risk management policies and procedures (including if relevant the credit assessment processes) during the authorization process. An ongoing national initiative consists in expanding eligibility ratio to non-listed (and therefore in most cases non-rated) securities issued by securitization funds for insurance companies as institutional investors.

³¹ Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision, OJ L 235/10, 23.9.2003

³² Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 302/32, 17.11.2009

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<p>management company.</p> <p>For the purposes of the credit quality of the instrument; consider a money market instrument not to be of high quality unless it has been awarded one of the two highest available short-term credit ratings by each recognised credit rating agency that has rated the instrument or, if the instrument is not rated, it is of an equivalent quality as determined by the management.”</p>	<p>which is subject to and complies with prudential rules considered by the competent authorities to be at least as stringent as those laid down by Community law shall be understood as a reference to an issuer which is subject to and complies with prudential rules and fulfils one of the following criteria:</p> <ol style="list-style-type: none"> 1. it is located in the European Economic Area; 2. it is located in the OECD countries belonging to the Group of Ten; 3. it has at least investment grade rating; 4. it can be demonstrated on the basis of an in-depth analysis of the issuer that the prudential rules applicable to that issuer are at least as stringent as those laid down by Community law. 	<p>factors.”</p> <p>Moreover there is no obligation to invest in assets that have been rated. Finally, the explanatory text of the guidelines explains that “If the rating of a money market instrument no longer complies with the guidelines at a given moment after the purchase, corrective action should be taken by the management company taking into account the best interests of the unit-holders.”</p>		<p>Moreover, a long term objective is to allow securities issued by those funds to be listed on a regulated exchange without needing a rating from a CRA. Consequently, the AMF will have to improve its human and technical resources in order to give an assessment in substitution before delivering visa for listing.</p>	
<p>Germany</p> <p>Insurance Supervision:</p> <ul style="list-style-type: none"> - No references in laws (VAG, VVG) - References in circular 4/2011 (VA) section B.2.3.c.ii, B.3.1.c. and B.3.1.d. (Guidance Notes on the Investment of Restricted Assets of Insurance Undertakings) 	<p>Securities Supervision:</p> <p>In general there is no reference on ratings in German law. There is only one direct reference induced by CESR Guidelines on Money Market Funds and transposed into national law which entered into force in July 2011 (see Article 3 (3) and (4) of the Guideline on specifying fund categories in accordance with section 4 (2) of the Investment Act)</p>	<p>Insurance Supervision:</p> <p>See Annex : Insurance/Reinsurance Companies</p> <p>Securities Supervision:</p> <p>In general there is no reference to CRA ratings in German law on investment funds and their managers. There is only one direct reference induced by CESR Guidelines on Money Market Funds that has been transposed into national law (please see previous column). Furthermore, Germany will transpose the Directive amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for</p>	<p>Insurance Supervision:</p> <p>See Annex : Insurance/Reinsurance Companies</p> <p>Securities Supervision:</p> <p>The German regulatory framework contains a general rule regarding due diligence and risk assessment applying to all CIS types and all management companies. This rule requires internal risk measurement and risk management processes addressing among others the credit and counterparty risk. BaFin has additionally issued a circular on minimum requirements for risk management of asset management companies. This circular describes the applicable due diligence procedures.</p>	<p>Insurance Supervision:</p> <p>See Annex : Insurance/Reinsurance Companies</p>	

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			collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings in a timely manner.		
Hong Kong	N/A	SFC's Code on Unit Trusts and Mutual Funds (UT Code) 8.5(c) ICG Appendix (B)(23)(a) UT Code 8.8(f) UT Code Appendix C2A(g) UT Code Appendix E "Holdings of collateral"	Not applicable – none identified. There is no mandatory or mechanical reliance on CRA ratings in HK in the context of investment funds management. The relevant laws and regulations convey a clear message that the effective credit rating system is the firm's own risk management system. All the UT Code references are purely disclosure based and do not mandate any form of reliance (mechanical or otherwise) on CRA ratings. In ICG, firms are required to establish and maintain an effective credit rating system to evaluate client and counterparty creditworthiness, where such credit rating should reflect among other things: <ul style="list-style-type: none">• investment objectives, investment history, trading frequency and risk appetite, past payment records and defaults, if any;• the client's capital base and the existence and amount of guarantees and by whom such guarantees are given, if any;• any known events which may have an adverse impact on the client's financial status, potential for default or accuracy of information stored regard the clients.	Supervision includes both onsite and offsite monitoring. Investment processes are discussed with investment managers and alternative investment managers during the course of supervision in assessing the business conduct of the SFC-licensed firms.	Whether the credit analysis by the manager is appropriate should be reflected in the fund's performance over time.
India	In Eighth Schedule of SEBI (Mutual Fund) Regulations, 1996, Investment valuation Norms, Principle of Fair Valuation has been introduced.	N/A	N/A	In term of Eighth Schedule on 'Principle of Fair Valuation' of SEBI (Mutual Fund) Regulations, 1996, the valuation is required to be done in good faith and in true and fair manner	As per standard disclosures in offer documents and market practice the conservative approach towards ratings is adopted by the investment managers.

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				through appropriate valuation policies and procedures. Investment managers may disclose their credit evaluation policy for the investments in debt securities. To value an un-rated security, the fund manager is required to assign an internal credit rating, which will be used for valuation. The asset management companies are required to provide for the periodic review of the valuation policies and procedures to ensure the appropriateness and accuracy of the methodologies used and its effective implementation in valuing the securities/assets. The Board of Trustee and the Board of asset management company is required to be updated of these developments at appropriate intervals. The valuation policies and procedures are required to be regularly reviewed (at least annually) by an independent auditor to seek to ensure their continued.	
Indonesia	-	-	-	-	-
Italy	For occupational retirement schemes, no reference was in place For collective investment schemes, see response from the European Commission as well as the answer to question 1f) in the Introduction For alternative investment schemes, see response from the European Commission as well as the answer to question 1f) in the Introduction	For occupational retirement schemes, no reference was in place For collective investment schemes: Commission Regulation (EU) no. 583/2010 Article 7 paragraph 2(a) See response from the European Commission	For occupational retirement schemes, no reference was in place	The adequacy of market participants' own credit assessment processes in respect of investment funds management is evaluated within the more general assessment of the risk management process employed by Asset Management Companies (AMCs). AMCs are required to implement a risk-management process in order to identify, measure and mitigate the risks to which the portfolios of the Collective Investment Schemes (CIS) are exposed. The AMC must adopt adequate arrangements, techniques and procedures to ensure the correct implementation of the risk	The BI has not adopted any specific procedures to guard against upward biases in firms' internal ratings. BI uses a single supervisory review and evaluation process for all types of intermediaries, including the asset management companies; it is based on an evaluation phase followed by a correction phase. The evaluation process is conducted annually with a half yearly update; scores are attributed to risk areas (strategic; market, credit/counterparty and liquidity; operational and reputational) and cross-cutting profiles (governance and control system; profitability; and capital

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				management process. They must also conduct periodic back-tests in order to review the validity of their risk measurement arrangements and to address risks arising from potential changes in market conditions. In March 2012 COVIP introduced for all pension funds the requirement to produce a specific "Document on investment policy", requiring a comprehensive review of the investment process as a whole, including the investment risk measurement methods, the risk-management processes implemented, the strategic asset allocation and the process of selection of investments. On July 22, 2013, Banca d'Italia and CONSOB, within an initiative coordinated with IVASS and COVIP, issued communications ³³ within their remits on the use of ratings in the investment choices of collective portfolio managers. Both communications are aimed at reducing over-reliance on credit ratings	adequacy). The assessment is a combination of quantitative and qualitative factors, and draws also on the extensive data sets held in the BI and derived from the periodic reports on regulated entities.
Japan	-	-	-	The SESC inspects if Financial Instruments Business Operators (investment managers) develop credit risk management organizational and operational system in which they collect information on not only pro forma standards for rating but also on changes in the business environments of issuers and in which quick responses are available for cases in	-

³³ See http://www.bancaditalia.it/vigilanza/normativa/norm_bi/comunicazioni/Rating22lug.pdf ; <http://www.consob.it/main/documenti/bollettino2013/c0062557.htm>

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				which the securities are disqualified from being invested in, when they evaluate credit risks of securities.	
Korea	No plans to remove.	Paragraph 2, 4, 6, 7, 8, of article 9.1 of Regulation on Supervision of Retirement Pension	None	N/A	N/A
Mexico	None.	Mutual Funds Act, Articles 17, 32, and 48. Upon the determination of the CNBV, investment companies shall obtain a rating that reflects the market and credit risks of their securities as well as of the quality of their management.	In the mutual funds Bill under discussion in the Congress, it was included the possibility to develop alternative methodologies.	Supervisory efforts will review, based on the inspections calendar, the fulfilment of article 9 of the Mutual Funds Rules.	-
Netherlands	-	-	-	-	-
Russia	-	<ol style="list-style-type: none"> 1. Requirements to financial assets permitted for the Reserve Fund investment - Sections 6 and 9 2. Requirements to financial assets permitted for the National Prosperity Fund investment – Sections 6 and 11 3. Government Decree №761 of 13.12.2006 - Section 1, sub-section "m". 4. Government Decree №38 of 27.01.2012 - Section 8, subsection "a". 5. Government Decree №1225 of 31.12.2010 - Section 5, subsection "d" of the Rules of such allocation. 6. Order of the Ministry of Economic Development of the Russian Federation №387 from 01.08.2011, Ministry of Finance №90N, the Bank of Russia №2669-U - Section 6 7. Government Decree №1080 of 21.12.2011 - Section 5, subsection "b" of the Rules of investing temporarily free funds of state corporations, state-owned 	None	Russian legislation does not provide the supervisor with the authority for such assessment.	-

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		<p>companies;</p> <p>8. Government Decree №1121 of 24.12.2011 -Section 2,subsection"c" of the Rules of allocation of the federal budget funds in bank deposits;</p> <p>9. Government Decree №390 of 18.05.2011 -Section 5, subsection "c" of the Rules.</p> <p>10. Order of FFMS of Russia from N 09-45/pz-n of 10.11.2009.</p> <p>11. Order of FFMS of Russia from N 12-34/pz-n of 31.05.2012.</p> <p>12. Federal Law N 111-FZ of 24.07.2002 - Section 28, subsection 1, paragraphs 1, 6 and 7; Section 29, subsection 3 and Government Decree N 379 of 30.06.2003.</p> <p>13. Order of FFMS N 10-79/pz-n of 28.12.2010.</p> <p>14. Government Decree N 63 of 01.02.2007.</p> <p>15. Government Decree N 540 of 01.09.2003.</p> <p>16. Government Decree N 454 of 17.06.2010.</p>			
Saudi Arabia	None	None	There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	N/A. There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management.	N/A. There is no reference to CRA ratings in laws and regulations pertaining to Investment Funds Management and there are no requirements for firm to use internal ratings.

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Singapore	Laws and regulations relating to collective investment schemes ("CIS") do not contain requirements that make reference to credit ratings. Code on Collective Investment Schemes ("CIS Code") (which sets out the best practices in the management, operation and marketing of CIS) contains some references to credit ratings. One of the rules (in Appendix 6 of the CIS Code) which makes reference to credit rating is currently being reviewed.	Laws and regulations on collective investment schemes do not contain such requirements. Our CIS Code contains some references to credit ratings. These references are found in Appendices 1 and 4 of the CIS Code.	MAS has explicitly stated in the CIS Code that a CIS operator should not solely or mechanically on ratings issued by credit rating agencies. Where possible, the CIS operator should make its own credit assessments to verify ratings issued by credit rating agencies. Moreover, in the event of a difference between the ratings issued by credit rating agencies, or between such external ratings and the CIS operator's internal credit assessment, the lowest rating should be used. The responsibility thus rests squarely on the CIS operator to undertake the necessary due diligence (including independent credit assessment) when making investments or entering into derivative transactions on the scheme's behalf.	The CIS Code states that in the event of a difference between the ratings issued by credit rating agencies, or between such external ratings and the manager's internal credit assessment, the lowest rating should be used. MAS carries out inspections on investment managers. As part of these inspections, MAS may review the investment manager's credit risk assessment process, product approval process and investment construction process, amongst others. Further, under our regulatory framework for CIS, the trustee of a scheme plays an important role as the independent oversight entity to safeguard participants' interests.	Please refer to the answer in the previous column.
South Africa	Primary: Section 45(a)(i) of the Collective Investment Schemes Control Act 45 of 2002 (CISCA) determines that the foreign issuers of non-equity securities must have a long term issuer credit rating on the international scale which ratings and rating agencies must be determined by the registrar. Subordinate: Notice 1503 which was a notice determining the securities, classes, assets that may be included in a CIS in securities and the manner and limits of such inclusion provided for the inclusion limits of non-equity securities based on credit ratings. Notice 1503 was accordingly repealed and replaced by Board Notice 80 of 2012 which removes primary reliance upon credit ratings and replaces it with issuer/guarantor specific	s. 45 of CISCA	Collective Investment Schemes No Financial Intermediaries and Advisors The General Code of Conduct for Authorised FSPs and representatives provides requirements that must be observed by authorised financial services provider in the rendering of financial services. Section 8 of part vii of the codes of conduct requires authorise financial services providers to conduct a risk analysis of the financial product and risk analysis of the product supplier. The process of identifying the appropriate financial product or the appropriate product supplier does factor in the risk of such product or product supplier in order to determine whether such risk is appropriate based	Collective Investment Schemes They use the limitations of Board Notice 80 of 2012. All CIS managers also required to provide a risk management programme which is reviewed by Trustee and Auditor of the collective investment scheme.	See response to column on the left. N/A for pension funds

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	<p>requirements, mainly based upon financial strength (capitalisation)</p> <p>The Financial Advisory and Intermediary Services Act, 2002 (FAIS Act) does not make any direct reference to credit ratings and or credit ratings agencies.</p> <p>The Pensions Funds Act, 1956</p>		<p>on the need analysis conducted on the client.</p> <p>Pension Funds There is no requirement to make use of CRA's in the investment process. However, regulation 28(2)(b)(v) and (vi) requires a retirement schemes to perform a due diligence taking into account risk relevant to the investment.</p>		
Spain	<p>Please see EU response Circular 6/2010 of the CNMV about CIS investment on derivatives instruments (rule 20th). This rule demanded a minimum CRA rating to a counterpart of every OTC derivative transaction.</p> <p>The current text of this rule requires the management company to carry out an internal assessment of the counterparty creditworthiness.)</p>	<p>The article 50.2.b of the Royal Decree 1082/2012 that implements the Law 35/2003, on CIS diversification requirements. This article allows an investment fund to exceed the general diversification limits in non-EU sovereign debt provided that the issuer of this debt has been granted a minimum rating by a CRA.</p> <p>Circular 3/2011 of the CNMV, in its appendix where it describes the investment requirements of a "Money Market Fund" and a "Short Money Market Fund". The specific reference is to the issuers of the money market funds' eligible assets.</p> <p>Orden 2682/2012, of 5 December 2012, on mutual funds which invest mostly in Spanish Government Debt ("Fondtesoros"). The specific reference is to the issuers of the debt in which these funds are allowed to invest.</p> <p>Circular 6/2010, of the CNMV about CIS investment on derivatives instruments (rule 26.5), regarding the guarantor of a structured fund.).</p>	Not yet.	<p>The CNMV carries out periodic inspections (on site and off site) to verify, among other aspects, that these management companies have a proper risk management process. The extant regulation states that a management company has to be able to identify, evaluate and quantify the significant risks relating to the CIS managed, which will include market risk, credit risk (including issuer risk and counterparty risk) and liquidity risk, as well as their overall impact on the risk profile of each CIS investment. To assess the credit risk of an instrument, the management company shall make an extensive analysis of credit risk, covering the financial product, the portfolio and investment policy.</p>	See answer in the previous column.
Switzerland	There are no references to CRA	Art. 7 CISO-FINMA	Own credit assessment is required in	Regulatory auditors have to report	For collective investment schemes no

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	ratings in the pension fund law or regulations. Therefore, no reference has been removed.	There are no references to CRA ratings in the pension fund law or regulations Art. 8,15 and 33 CISO-FINMA	addition to the use of credit ratings.	shortcomings and acknowledge compliance with regulation within their audit report on annual basis. Additionally, auditors and supervised entities are obliged to notify FINMA immediately if material deficiencies occur. Reliance on CRA ratings is not a major issue for pension funds in Switzerland. Investment decisions are not bound by regulatory prescriptions. The main responsibility for the investment policy lies at the pension fund level. Swiss pension funds are not allowed to leverage their assets, they have to observe an extensive diversification, and they have no liquidity risks. Moreover, pension funds maintain a long-term investment horizon.	internal ratings are used for regulatory purposes.
Turkey	-	-	-	-	-
UK	-	Collective Investment Schemes Sourcebook (COLL) 4.6.8R (9)(d) 5.2.10BR (2)(c) 5.2.19R (3A)(a)(i) 5.2.22AG (1)(b)(ii) 5.6.7R (8)(b) 5.7.5R (9)(b) 5.9.6R Appendix 1, Article 7, paragraph 2	N/A	-	-

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USA	15 U.S.C. 80a-6(a)(5)(iv)(I) (amended effective 7/21/2012)) 17 CFR 270.2a-7 17 CFR 270.5b(3)(c)(4)(iii) (amended in 2009) 17 CFR 270.5b-3(c)(1)(iv)((C)-(D)) Form N—1A ³⁴ , Item 27(d)(2) Form N-2 Instruction 6(a) to Item 24 Form N-3 Instruction 6(i) to Item 28(a) Form N-MFP ³⁵ 17 CFR § 4.24	17 CFR 270.3a-7	SEC –New rule 6a-5 deems the company to have met the creditworthiness standard if its board of directors (or its delegate) determines the particular security is (a) subject to no greater than moderate credit risk; and (b) sufficiently liquid that it can be sold at or near its carrying value within a reasonably short period of time. ³⁶ The proposed amendments to rules 2a-7 and 5b-3 would require the fund's board of directors (or the fund manager) to determine that the particular security meets a standard similar to the credit quality standard articulated for the particular rating to be removed as well as a liquidity standard. Proposed amendments to Forms N-1, N-2 and N-3 would remove the required use of credit ratings. ³⁷ CFTC-No specific alternative standard – affected persons are now required to address the “credit-worthiness” of pool assets in disclosures to customers.	Depending upon the scope and focus of the inspection, examiners would typically review the process the firm has in place to perform its independent credit analysis of potential and actual portfolio securities. This may include, among other areas, a review of the compliance-related materials (such as policies and procedures, exceptions reports, diversification analysis, and consistency with prospectus disclosures), credit files (which include all investment due diligence gathered in recommending, holding, and/or selling the portfolio security), interviews of individuals involved in the various stages of the process, and a review of the board's oversight of the process.	-

³⁴ Forms N-1A, N-2 and N-3 are used by certain investment companies to register under the Investment Company Act and to register their securities under the Securities Act.

³⁵ Form N-MFP under the Investment Company Act is used by money market funds to report portfolio holdings information each month to the Commission.

³⁶ See Purchase of Certain Debt Securities by Business and Industrial Development Companies Relying on an Investment Company Act Exemption, Release No. IC-30268 (Nov. 19, 2012) 77 FR 70117 (Nov. 23, 2012).

³⁷ See References to Credit ratings in Certain Investment Company Act Rules and Forms, Release Nos. 33-9193, IC-29592 (Mar. 3, 2011), 76 FR 12896 (Mar. 9, 2011).

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Application of the basic principles to particular financial market activities (Principle III)					
III.3 Internal limits and investment policies of investment managers and institutional investors (Principle III.3c)					
Insurance companies (in their capacity as institutional investors)					
	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
Argentina	Insurance companies are regulated only from the point of view explained in the previous section.	-	-	-	-
Australia	APRA does not specifically set requirements on the internal limits or investment policies of regulated entities in their capacity as institutional investors. As such, there are no rules on the use (or otherwise) of CRA ratings by insurance companies in making their investment decisions.	APRA reviews through onsite and offsite supervisory processes that regulated entities use due diligence in selecting investment options. Specifically, APRA is also developing a suite of prudential guidance material relating to investment governance .	APRA has powers to suspend or cancel a licence, if the regulated entity does not comply with the law. The law includes requirements to have adequate risk management systems. APRA has broad directions powers to influence the internal limits and investment policies.	APRA has oversight of insurance companies' investments as part of wider supervisory processes, including risk management requirements, and an indirect influence on these holdings via the risk-based capital requirements of the prudential framework, which take into account the risks of the investment portfolio.	No
Brazil	CRA's ratings were used to allow certain investment, and to allow a certain percentage of concentration in one issuer.	The supervisor reviews if the regulation is adopted or not, if the concentration to certain investment corresponds to the patterns set by the rules. At least annually the company must complete a form, where it describes its operations.	Supervisor, as aforementioned, can establish the regulation of their market. And that was how the changes were made, through regulation change – more detailed regulation change in the respective Annex of the subject. Moreover, if a market participant does not comply with the established regulation, he may be subject to sanctions under administrative proceedings.	Internal limits and investment policies are reviewed, at least annually, as a part of the supervisory process.	This cannot be measured since the CRA rule (CVM Rule 521/2012) was published last year. However, investment manager firms are aware that they need to develop their risk management areas. Institutional investors, due to past CRA issues, are more careful with the use of CRA's ratings.
Canada	Please see next column.	OSFI's capital guidance describes conditions that apply to the use of ratings in determining insurers' capital levels ³⁸ . Similar use and condition requirements for ratings exist in the <i>Minimum Capital Test for Federally Regulated Property & Casualty Companies</i> ³⁹ .	-	-	-

³⁸ See the *Minimum Continuing Capital and Surplus Requirements* (MCCSR) Guideline for life insurance companies: http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/guidelines/MCCSR2013_e.pdf

³⁹ See http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guidelines/capital/guidelines/mct2013_e.pdf.

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China	When insurance companies formulate internal limit and investment policies, they must consider the regulatory rules on credit rating and cannot invest in the investment tools whose credit rating is lower than those stipulated in the regulatory rules.	Regulators periodically assess insurance companies' internal limits and investment policies mainly from two aspects: one, whether they are in compliance with certain regulations; second, whether they meet the requirements of asset and liability management and can effectively prevent risks.	If insurance companies' internal restrictions and investment policies do not comply with regulations or may cause major risks, regulators have the right to require companies to adjust and comply.	-	Insurance companies have strengthened the capacity building of internal credit assessment and reduced reliance on external credit rating. However, the capacity building of internal credit assessment is a gradual process.
European Commission	-	N/A, The relevant response for the insurance sector is grouped in the table of annex I on Insurance undertakings.	N/A	N/A	N/A
France	Ratings allow securities issued by securitization funds to be listed on a regulated stock exchange in France and listing is one the first eligibility criteria for such investors in accordance with article L214-44 of the French Monetary and Financial Code.	-	-	-	As explained in the first column, investments made by insurance companies in securitization funds depend on ratings delivered by CRA. Currently, negotiations involving all stakeholders (supervisors, investors, investment managers and the Ministry of Finance) aim to amend laws and regulations in order to reduce ratings requirements necessary to list securities issued by securitization funds.
Germany	-	-	-	-	-
Hong Kong	CRA ratings are used to determine the value of listed shares, or securities, unit trusts or mutual funds held by an authorised insurer carrying on general business in Hong Kong. However, CRA ratings are only one of the criteria used in the assessment of investment quality.	The IA may periodically request the insurers to submit specified information such as limits to credit, market and other risks and conduct on-site inspections and discussion with the insurers.	The IA is empowered by the ICO to take regulatory intervention in respect of operations of insurance companies in Hong Kong for the protection of interests of policyholders, E.g. for any cause for concern on the credit risk undertaken by insurers.	N/A	CRA ratings usually have a lesser role to play in the management of the risk of an insurer, when compared with other financial services providers. The IAIS is of the view that there is no indication of either over-reliance or mechanic reliance on CRA ratings as part of the risk management process.

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India	-	-	-	-	-
Indonesia	-	-	-	-	-
Italy	-	This activity is part of the regular review carried out on insurance undertakings. Moreover, IVASS Regulation 36 requires the administrative body of insurance undertakings to adopt (at least annually) an investment policy that sets out guidelines on investments according to the size, nature and complexity of the activity performed, taking account of the requirements and limits set by the Regulation itself. Each investment policy is transmitted to IVASS and subject to review to monitor the investment decisions and their drivers. On July 22, 2013, IVASS, within an initiative coordinated with Bank of Italy, CONSOB and COVIP, issued a communication ⁴⁰ on the use of ratings in the investment choices of insurance undertakings. The communication is aimed at reducing over-reliance on credit ratings.	Changes to internal limits and investment policies may be required to restore compliance to limits set out in laws and regulations.	NA	-
Japan	Used as one of the benchmarks for credit risk management in asset investment by insurance companies. The FSA requires insurance companies to develop credit risk management systems not to excessively rely on	The FSA added the following provision to the Comprehensive Guidelines for Supervision of Insurance Companies (June 2009), and supervises insurance companies not to too much rely on CRA.	The FSA has the authority to require an insurance company to submit reports as necessary when a problem is recognized with a insurance company, and it may take administrative actions when a serious	N/A (The FSA periodically inspects insurance companies)	N/A

⁴⁰ See http://www.ivass.it/ivass_cms/docs/F13648/Lettera%20al%20mercato%20su%20utilizzo%20giudizi%20agenzie%20di%20rating.pdf

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	external credit ratings.	In addition, FSA reviews if insurance companies' asset investment risk managements are appropriate, according to the size or nature of each companies, based on the provisions of the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators.	problem is recognized.		
Korea	As for foreign securities, investments in the following are permitted: -Investing in securities that are graded as or higher than investment grade by foreign credit rating agencies. -Investing in foreign securities that are guaranteed by a financial institution that has been rated as or higher than investment grade -Investing in highly rated CLN and synthetic CDO. Moreover, insurance companies use CRA in managing risks by placing a cap on the total investment for each type of assets based on the CRA.	Reviews the following: -compliance of asset management and ratios -legality of internal decision making process on investments	In case an insurance company violates principles on asset management and ratios stipulated in the Insurance Business Act, the authority may take following measures according to article 134 of the same act: - corrective order for the relevant violation - caution and warning to the insurance company or request for caution, warning or reprimand to its executives and employees.	N/A	N/A
Mexico	Insurers Investment policy is established by an investment regime. In the case of the insurance sector, investment rules for the coverage of technical provisions, state technical provisions should be backed with investments, in order to face assumed risks in adequate conditions of security, yield and liquidity.	Insurance supervisor is responsible for monitoring adherence to this regulation related to investment limits.	The insurance supervisory authority has adequate powers to require changes to internal limits and investment policies. There are no examples of how those powers have been exercised to incentivise compliance with the CRA Principles.	Internal limits and investment policies are routinely reviewed as part of the supervisory process.	Not applicable
Netherlands	-	-	-	-	-
Russia	-	-	-	-	-

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Saudi Arabia	None	N/A	N/A	N/A	N/A
Singapore	CRA ratings are one of the factors being considered (e.g. not exceed X amount/% of assets for non-investment grade bonds).	The credit rating limits/ investment policy are being examined by MAS officers during both on-site inspection as well as offsite review. (In addition, MAS collects granular data on asset and liability exposures of insurers quarterly. The credit rating of the piece of equity/debt security/loan is one of the data fields collected to track, especially if there is a shift to non-investment grade assets.)	MAS Notice 125 ⁴¹ on investments of insurers set out the basic principles that govern the oversight of investment activities. The investment policy will be subject to greater scrutiny and any non-compliance with the Notice will be reflected in the annual CRAFT ⁴² assessment of the insurer. MAS also has the powers to direct under Section 41 of the Insurance Act to require the relevant person or insurer to take action as MAS may consider necessary.	N/A	No evidence.
South Africa	-	-	-	-	-
Spain	As a general rule, the insurance companies established limits controls that relied on credit qualifications. Nevertheless the previous described situation is not usually applied in an automatic way. When problems are detected, if the investment is substantial in the disinvestment decisions usually take part specialised Committees of the own insurance company. Factors such as CDS, etc. are assessed	This is an aspect that always is reviewed. (The investment policy of the insurance company needs to be established with documentary evidence). In the same way the compliance with the dispersion and diversification limits is controlled.	The insurance companies can be required to establish appropriate controls on the basis of internal control and corporate governance regulation. Although sometimes depending on the size of the company it can be difficult.	-	-

⁴¹ MAS Notice 317 on Asset Management of Life Insurance Funds will still continue to remain effective until MAS Notice 125 (issued in April 2013) takes effect from 1 Jan 2014. However, early adoption of the requirements in the new Notice is encouraged.

⁴² MAS uses a risk assessment system known as CRAFT (Comprehensive Risk Assessment Framework and Techniques) to identify and assess the risks of the financial institutions it supervises, including insurance companies. CRAFT is a pro-active, risk-based and forward looking supervisory framework which allows MAS to determine its supervisory plans and priorities so that the degree and nature of supervisory attention is varied and calibrated for individual insurers. To arrive at the overall risk assessment of an insurer, MAS will first assess the risks posed by the business lines, distribution model and business functions (such as Investment) of an insurer. MAS will then assess the risk management systems and controls, degree of oversight exercised by the Board and senior management, the earnings, capital position and parental support. The risk assessment is based on information obtained from both on-site inspection and offsite review.

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Insurance companies (in their capacity as institutional investors)					
	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
Switzerland	As other market participants, most insurance companies also apply CRA ratings in setting investment policies for external investment managers. CRA ratings are also partially used for setting internal limits.	Internal limits must comply with the restrictions of the Insurance Supervision Act (ISA) and the Insurance Supervision Ordinance (ISO) as well as with FINMA-Circ. 8/18 “Investment guideline – insurers” from a qualitative and a quantitative view. Compliance is periodically (at least annually) checked by the auditor (regulatory audit) and by the supervisor complemented by on-site-reviews for a subset of insurance companies.	Investment guidelines are part of the business plan, which has to be communicated to the supervisor. FINMA has the possibility to check and to reject changes to the business plan. Within Tied Assets investment policies must comply with Art. 76 and 78 ISO. This is periodically checked by on-site-reviews for a subset of insurance companies.	See previous column.	No.
Turkey	CRA ratings do not play a major role in the Turkish insurance sector, since they are only effective in determining the reinsurance companies that the insurance companies will cede their risks and foreign financial assets that they will invest which will be used as a cover of technical provisions. For the assets except those used as a cover for technical provisions there is not a reference to CRA ratings, companies are free to choose which assets to invest. According to the “Regulation on the Establishment and Operation Procedures of the Pension Funds”, Article 22, foreign securities should be rated in order to be eligible for investing by pension funds. However, there is no reference to any specific group of rating agencies.	According to the “Regulation on the Financial Structures of Insurance, Reinsurance and Pension Companies” without prejudice to the provisions concerning assets and collaterals to cover technical reserves, investment policies to be applied by companies in the following year shall be determined by the senior management of the company. These policies are reviewed and supervised during the specific type of on-site supervision which focuses only on asset quality, investment policy and derivative products.	In case the financial structure of an insurance, reinsurance or a pension company is found to weaken to an extent to endanger the rights and interests of the insured, and regardless of whether any warning has been given to the company previously, the Minister in charge of the Undersecretariat of Treasury may, by giving the company an appropriate period of time, require partial or complete disposal of assets, or a suspension of such disposal, suspension of the acquisition of new subsidiaries and other fixed assets. On the other hand, until now, there has not been any situation in which these powers have been exercised to incentivise compliance with the CRA Principles.	N/A	No.
UK	-	-	-	-	-
USA	-	-	-	-	-

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Investment managers (i.e. managers of collective investment schemes)					
	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
Argentina	CNV's regulation and authorisation requirements do not make references to internal limits and investment policies based on CRA ratings, but they are used in practice.	CNV does not have powers to review or set limits.	CNV does not have powers to review or set limits.	N/A	No
Australia	<p>Australian law and regulation for CIS does not provide for references to CRA ratings.</p> <p>In some CIS, investment policies are framed with a requirement that a minimum credit rating be achieved.</p> <p>APRA does not specifically set requirements on the internal limits or investment policies of insurance companies in their capacity as institutional investors. As such, there are no rules on the use (or otherwise) of CRA ratings by insurance companies in making their investment decisions.</p>	<p>ASIC monitors the conduct of operators of CIS, which may include a targeted surveillance or reactive surveillance to address risk arising from internal limits and investment policies.</p> <p>In addition CIS that are registered, so as to enable funds to be raised from the public, must have a compliance committee with a majority of external members if they do not have at least half of their directors who are external to the investment manager. This applies to CIS that acquire credit instruments and CIS that invest in such schemes.</p> <p>A function of the compliance committee is to ensure that procedures designed to ensure compliance with duties including duties to exercise reasonable care and diligence are followed. This includes considering the appropriateness and implementation of an investment strategy.</p> <p>APRA reviews through onsite and offsite supervisory processes that superannuation entities use due diligence in selecting investment options. Specifically, APRA is also developing a suite of prudential guidance material relating to investment governance.</p>	<p>ASIC has broad information gathering powers to compel a person or company to provide documents or information, including those necessary to obtain information regarding the operation of a CIS and financial product disclosure.</p> <p>ASIC has powers to impose conditions on a licence required for the provision of financial services, including operating a retail CIS or in respect of dealing in interests in a wholesale CIS.</p> <p>ASIC has powers to suspend or cancel a licence, if the licensee does not comply with the law. The law includes requirements to have adequate risk management systems.</p> <p>ASIC may also seek injunctive, protective, deterrent and compensatory remedies.</p> <p>APRA has powers to suspend or cancel a licence, if the regulated entity does not comply with the law. The law includes requirements to have adequate risk management systems.</p> <p>APRA has broad directions powers to influence the internal limits and investment policies.</p>	N/A	We are not aware that use of CRA ratings was previously contrary to the CRA Principles.
Brazil	CRA ratings are used as a way to gain transparency, since certain CISs, which	The supervisor reviews if the regulation is adopted or not, if the concentration to	Supervisor, as aforementioned, can establish the regulation of their market.	Internal limits and investment policies are reviewed, at least	Changes cannot be measured since the CRA rule (CVM Rule

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	invest in credit, should have their credit or their Investment Funds rated.	certain investment corresponds to the patterns set by the rules. At least annually the company must complete a form, where it describes its operations.	And that was how the changes were made, through regulation change – more detailed regulation change in the respective Annex of the subject. Moreover, if a market participant does not comply with the established regulation, he may be subject to sanctions under administrative proceedings.	annually, as a part of the supervisory process.	521/2012) was published last year. However, investment manager firms are aware that they need to develop their risk management areas. Institutional investors, due to past CRA issues, are more careful with the use of CRA ratings.
Canada	As registrants, hedge fund managers and portfolio managers are required to establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with their business in accordance with prudent business practices. This general requirement encourages portfolio managers to undertake their own research and not rely solely or mechanically on CRA ratings in setting internal limits and investment policies. In addition, registrants are required to take reasonable steps to ensure that a proposed trade is suitable for a client before making a recommendation or accepting instructions from a client. This is often referred to as the “know your product” obligation. We expect that registrants conduct an adequate level of due diligence, and not rely solely on CRA ratings, in order to fulfil their “know your product” obligation. With regard to institutional investors, to	During the course of compliance examinations of investment fund managers (which include hedge fund managers) and portfolio managers, OSC staff review the investment policies and internal limits of the investment funds they manage. This is to assess if the investment funds’ portfolio is being managed in accordance with their investment objectives. With regard to institutional investors, to the extent that they are not registrants (i.e. a dealer, portfolio manager or investment fund manager), compliance staff would not have the authority to conduct compliance examinations of institutional investors.	The OSC has the authority to conduct compliance examinations to inspect the business and conduct of registrants, including hedge fund managers, to determine if registrants are complying with securities legislation.	Internal limits and investment policies are routinely reviewed as part of the compliance examination process for all portfolio managers, including those that manage the portfolio of a hedge fund.	Although OSC staff currently review and assess at the internal limits and investment policies during the course of compliance examinations, we do not have any evidence at this time to confirm whether changes have been made to hedge fund managers’ and portfolio managers’ use of CRA ratings in investment mandates, thresholds and triggers as a result of the publication of the CRA Principles.

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	the extent that they are not registrants (i.e. a dealer, portfolio manager or investment fund manager) who are subject to the obligations of a registrant, or investment funds subject provisions under securities law depending on the type of investment fund, we do not oversee these particular institutional investors. If the institutional investors are banks, pension funds or insurance companies, these entities are under the oversight of prudential regulators in our jurisdiction.				
China	On the basis of meeting legal requirements, investment manager has the right to differentiate detailed rating level. Generally, the authorities don't examine the internal limitation and investment strategy of the investment manager and institutional investor.	The authorities normally don't intervene in the internal investment limitation and investment strategy of the institutional investor.	The authorities normally don't intervene in the internal investment limitation and investment strategy of the institutional investor.	-	-
European Commission	-	New rules on UCITS set new obligations to competent authorities: Taking into account the nature, scale and complexity of the UCITS' activities, the competent authorities shall monitor the adequacy of the credit assessment processes of the management or investment companies, assess the use of references to credit ratings, in the UCITS' investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings.	N/A	N/A	N/A
France	For money market funds, the investment	Portfolios are monitored on a monthly	The AMF has the powers to lead	See previous column.	Currently, negotiations involving

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manager is responsible for the assessment of the high credit quality of the assets. In making its determination, a management company must take into account the rating as defined above, but must also take into account a range of factors including the nature of the asset class represented by the instrument, the operational and counterparty risk and the liquidity profile.	basis to make sure investment managers take only investment actions that are consistent with the stated objectives and constraints of the fund, described in the prospectus and KIID disseminated to clients.	investigations if any relevant signs detected through its quantitative or qualitative tools disclose unfair practices that affect investors' interests. Internal limits and investment policies constitute legal obligations for regulated fund-managers as they must be disclosed in legal prospectus and KIID. From simple corrective measures requirements to administrative penalties (among which pecuniary penalties), the AMF is entitled to charge any professional misconduct.		all stakeholders (supervisors, investors, investment managers and the French Treasury) aim to amend laws and regulations in order to reduce CRA ratings reliance necessary to list securities issued by securitization funds. Regarding money market funds, solutions to enable investment managers to assess securities on their own (notably of high credit quality) are being reviewed by the European Commission. Regarding other investment funds (out of MMFs) it is possible for investment managers to include in the funds' prospectus, the ability to maintain downgraded securities in their portfolios. Preserving clients' interests must be their first priority.
Germany It may be possible that CIS management companies introduce themselves references/eligibility criteria regarding CRA ratings into the fund rules. The German Investment Act does not force to introduce references to ratings and also does not prohibit doing so. However, Germany will transpose the Directive that amends inter alia Directive 2009/65/EC and Directive 2011/61/EU and that explicitly prohibits a sole an mechanically reliance on	In case a CIS management company has introduced references/eligibility criteria regarding CRA ratings into the fund rules, BaFin reviews these fund rules and among other things checks the adequacy of these criteria in order to approve the fund rules. Furthermore, according to Article 27 (1) InvG (Investment Act) the custodian bank shall ensure that the investment limits applicable to the relevant fund according to law and the fund rules are complied with.	In case of an inadequate usage of CRA ratings, BaFin requests the asset management company to correct this usage by e.g. either adjusting the internal limits or the fund rules within a certain period of time. If the fund manager does not carry out these corrections, BaFin shall have power to issue all orders in the course of supervision which are necessary and appropriate to keep the business operations of an investment	None	No

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	CRA ratings in a timely manner.		management company in accordance with the InvG, the regulations issued on the basis of this Act and the fund rules or the articles of association. Furthermore and if necessary, BaFin may use administrative fines, revoke the licence of the fund manager or instead of a revocation of the licence, may demand the dismissal of the responsible managing directors and prohibit them from exercising their activities .		
Hong Kong	The UT Code does not require the use of CRA ratings as investment limits or investment restrictions. Certain investors may impose investment restrictions by reference to CRA ratings.	Investment processes and internal control review are discussed with investment funds managers during the course of supervision in assessing the business conduct of the SFC-licensed firms. In respect of reviewing the internal limits and investment policies, SFC considers whether the firm's risk management practice is commensurate with the risk profile of the firm, whether the firm has appropriate resources and whether there is appropriate management governance.	SFC-licensed firms are subject to conduct of business standards, e.g. ICG and Fund Manager Code of Conduct (FMCC) in which requirements on proper risk controls are set out. The SFC will require firms to put in place remedial measures to rectify any deficiencies identified during the course of supervision, including changes to internal limits and/or investment policies where appropriate.	Not applicable. Please see reply to Principle II above.	There is no specific evidence that investment managers have made changes to the role that CRA ratings play in investment mandates or thresholds. Investment managers are able to conduct their own credit assessment, but may still prefer rated securities for different reasons, such as reducing the amount of internal analytical work, liquidity, etc.
India	Seventh Schedule of SEBI (Mutual Fund) Regulations, 1996, has prescribed the restriction on the investments that can be made by the investment managers of mutual funds. The investment managers as per investment objective may set internal limits within the regulatory limits which would be supervised by the Trustees and the compliance to the same is reported	The investment objective and the allocation for investment in different type of debt instruments i.e. internal limits are disclosed in the offer document i.e. Scheme Information Document. The investment managers are required to ensure that they adhere to these limits and same are required to be reviewed by the trustees. Further, the same is also reviewed through inspection of the mutual	The internal limits for investments in mutual funds are kept as Seventh Schedule of SEBI (Mutual Fund) Regulations, 1996 and circulars. In case any default is observed then the same is dealt with in the manner as provided under Chapter IX, Procedure For Action In Case Of Default, of SEBI (Mutual Fund) Regulations, 1996.	Internal limits and investment policies are reviewed and forms part of regulatory inspection periodic trustee review, periodic compliance test reporting.	SEBI encourages Mutual Funds to not completely rely on rating agencies and have their own systems to check and balance CRA ratings used.

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	through trustee reports.	funds conducted by the regulator.			
Indonesia	-	-	-	-	-
Italy	For collective investment funds, see the response to question 1 under Principle 2 in the Introduction. See also the information provided by the European Commission regarding the amendments recently adopted to the regulation on credit rating agencies.	For collective investment funds, see the response to question 1 under Principle 2 in the Introduction. See also the information provided by the European Commission regarding the amendments recently adopted to the regulation on credit rating agencies. On July 22, 2013, Banca d'Italia and CONSOB, within an initiative coordinated with IVASS and COVIP, issued communications ⁴³ within their remits on the use of ratings in the investment choices of collective portfolio managers. Both communications are aimed at reducing over-reliance on credit ratings.	-	-	-
Japan	Used as one of the benchmarks for identifying the investment risk of investment managers. Financial Instruments Business Operators (FIBOs) use CRA as reference data for a ceiling for investments in each category of financial instruments, users' investment decisions, the minimum standards for investable products for investable products, and so on. (JSDA Working Group on Recommendable Uses of Credit Ratings Interim Report)	The FSA and the SESC inspect and supervise FIBOs' (investment managers') internal company structure to decide their management policies (including their decision making process) and internal rules concerning the limits of incorporated assets and loss control limits in accordance with features of investment assets.	The FSA has the authority to order FIBOs (investment managers) to take measures necessary to improve its business operation and assets, such as changing their business processes (business improvement order).	The FSA periodically inspects FIBOs (investment managers).	N/A

⁴³ See (http://www.bancaditalia.it/vigilanza/normativa/norm_bi/comunicazioni/Rating22lug.pdf ; <http://www.consob.it/main/documenti/bollettino2013/c0062557.htm>

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Korea	-	-	-	-	-
Mexico	Internal limits are not mandatory. The investment regime for certain mutual funds includes general limits that take into account credit ratings. Since debt funds should be rated, their prospectus are required to mention the minimum credit rating of any security they may invest in.	As a part of the regular off-site supervision, the CNBV has to verify how well the investment regime is being followed by the manager, including the credit quality of the portfolio.	The CNBV should authorize these limits at the mutual fund start of operations. Besides, powers are related to observe and order mutual funds (their managers) to adjust to their investment regimes, in case limits are exceeded. In this case, certain procedures apply in order to return the portfolio within the regulatory limitations.	Reviews are related to the fulfilment of the investment regimes.	No.
Netherlands	-	-	-	-	-
Russia	-	-	-	-	-
Saudi Arabia	Their risk management procedures for setting the internal limits and investment policies may rely on CRA ratings.	CMA reviews these as part of its supervisory processes review on a continuing basis.	CMA can have a view and convey it through its supervisory reports, and ensure corrective actions are taken.	N/A	No.
Singapore	Credit ratings are used in the assessment of compliance by funds with the objectives of the CIS codes. In general, the CIS code references ratings issued by Fitch, Moody's or Standard and Poor's. However, the Code on CIS states that an investment manager should not rely solely or mechanistically on ratings issued by CRAs. Instead, investment managers should have in place processes and assessments to verify such ratings issued by CRAs. In the event of a difference between the ratings issued by credit rating agencies, or between such external ratings and the manager's internal credit assessment, the lowest rating should be used.	Credit limit setting policy and investment construction processes can be reviewed in the course of inspections on investment managers.	MAS has the power to carry out inspections and to issue directions to investment managers to strengthen their credit limit setting policy or investment construction process, if these processes are found to be deficient.	N/A	There is no evidence to suggest that investment managers had made any changes to their credit risk assessment since the publication of the CRA Principles. We note that some investment managers are already using a combination of internal credit rating models and CRAs ratings to rate issuers and counterparties.
South Africa	None, this has been changed as a result of the application of Board Notice 80 of	The supervisor sets the limits for investments and also reviews each	As stated above Board Notice 80 of 2012.	The trustee constantly monitors compliance and reports breaches to	CIS managers are bound by the provisions of Board Notice 80 of

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	2012	portfolio's investment policies	Investment policies are approved by the registrar and on approval, the trustee of the collective investment scheme monitors for compliance.	the supervisor for regulatory action where necessary.	2012 and any breach is reported to the supervisor for the requisite regulatory action.
Spain	The CIS managers when describing the CIS investment policy in the prospectus may set minimum credit rating criteria according to a CRA on a free basis.	Please see EU response. The CNMV supervises the fulfilment of the CIS investment policies stated in the prospectus.	The CNMV has powers to supervise that the management of the CIS is not detrimental to the CIS investors' interests. We do not have specific examples regarding the exercise of powers connected to the compliance with the CRA principles.	-	We do not have any evidence of any material change in this field.
Switzerland	The contract of collective investment schemes includes internal limits and investment policies for each fund.	Supervisors check the contract previously if it meets the legal and regulatory requirements.	Changes to contracts have to be approved by FINMA. Hence, FINMA can reject. In extreme cases FINMA can set fund to bankruptcy.	Internal limits and investment policies are reviewed on annual basis by regulatory auditors.	No.
Turkey	-	-	-	-	-
United Kingdom	-	-	-	-	-
USA	Other than the rules noted above relating to investment companies, the SEC does not mandate use of CRA ratings as part of a registered investment adviser's credit assessment process.	SEC examiners' review in this area is dependent upon the focus of the exam. For example if there are internal, contractual or disclosure limits on investment policies of the adviser and/or investors, we may review and test for compliance with these limits as part of our portfolio management review.	-	-	-

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Argentina	Hedge funds and endowments and asset-backed securities are practically non-existent.	N/A	N/A	N/A	N/A
Australia	ASIC does not scrutinise funds' operations to this degree.	ASIC does not scrutinise funds' operations to this degree.	Section 912A(1)(h) of the Corporations Act requires Australian Financial Services licensees to have adequate risk management systems unless the licensee is regulated by APRA. We have not interpreted this section to have any specific meaning with respect to the use of credit ratings.	N/A	ASIC does not scrutinise funds' operations to this degree.
Brazil	CRA ratings are used as a way to gain transparency, since certain CISs, which invest in credit, should have their credit or their Investment Funds rated.	The supervisor reviews if the regulation is adopted or not, if the concentration to certain investment corresponds to the patterns set by the rules. At least annually the company must complete a form, where it describes its operations.	Supervisor can establish the regulation of their market. Moreover, if a market participant does not comply with the established regulation, he may be subject to sanctions under administrative proceedings.	Internal limits and investment policies are reviewed, at least annually, as a part of the supervisory process.	It is early to gauge since CRA rule (CVM Rule 521/2012) was published last year. However, investment manager firms are aware that they need to develop their risk management areas. Institutional investors, due the past CRA issues, are more careful with the use of CRA ratings.
Canada	In the case of hedge funds, there are no specific rules or legislation that reference CRA ratings that would impact on the internal limits and investment policies set by hedge fund managers and/or the portfolio managers that manage the portfolio of securities of a hedge fund. Hedge funds are not subject to National Instrument 81-102 <i>Mutual Funds</i> , where CRA ratings play a role in limited circumstances in setting internal limits and investment policies for publicly offered mutual funds. Instead, the hedge fund manager sets the investment objectives of its funds, which are outlined in its offering documents. In	Please see our response under the "investment managers" segment.	Please see our response under the "investment managers" segment.	Please see our response under the "investment managers" segment.	Please see our response under the "investment managers" segment.

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	turn, the portfolio manager that manages the portfolio of securities of the funds then sets the internal limits and investment policy. This would include determining the role that CRA ratings will play in setting their internal limits and investment policies. As registrants, hedge fund managers and portfolio managers are subject to section 11.1 of National Instrument 31-103 <i>Registration Requirements, Exemptions and Ongoing Registrant Obligations</i> (NI 31-103). Please see our response under the “investment managers” column.				
China	-	-	-	-	-
European Commission	-	New rules on AIFMs set new obligations to competent authorities: Taking into account the nature, scale and complexity of the AIFs' activities, the competent authorities shall monitor the adequacy of the credit assessment processes of AIFMs, assess the use of references to credit ratings, in the AIFs' investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings.	N/A	N/A	N/A
France	-	Portfolios are monitored on a monthly basis to make sure investment managers take only investment actions that are consistent with the stated objectives and constraints of the fund, described in the prospectus and KIID disseminated to clients.	The AIFM Directive is being transposed into French law (the French Monetary and Financial Code and the AMF General Regulation). Powers allowed to the AMF will be basically similar to those applicable for managers of collective investment	See column on the left.	Currently, negotiations involving all stakeholders (supervisors, investors, investment managers and the French treasury) aim to amend laws and regulations in order to reduce ratings requirements necessary to list securities issued by securitization funds.

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Alternative investment managers (e.g. hedge funds, endowments etc.)					
	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
			schemes.		Regarding money market funds, solutions to enable investment managers to assess securities on their own (notably of high credit quality) are reviewed by the European Commission.
Germany	N/A	See EC response	N/A	N/A	N/A
Hong Kong	SFC is not aware that CRA ratings were used in setting internal limits or investment policies of managers. Managers perform their own credit analysis in making investment decisions.	Investment processes and internal control review are discussed with alternative funds managers during the course of supervision in assessing the business conduct of the SFC-licensed firms. In respect of reviewing the internal limits and investment policies, SFC considers whether the firm's risk management practice is commensurate with the risk profile of the firm, whether the firm has appropriate resources and whether there is appropriate management governance.	SFC-licensed firms are subject to conduct of business standards, e.g. ICG and FMCC in which requirements on proper risk controls are set out. The SFC will require firms to put in place remedial measures to rectify any deficiencies identified during the course of supervision, including changes to internal limits and/or investment policies where appropriate.	Not applicable. Please see reply to Principle II above.	Alternative investment managers rely on their own internal credit analysis in making investment decisions. No changes have been noted.
India	With reference to Alternative Investment Funds, there is no regulatory requirement for Ratings.				
Indonesia	-	-	-	-	-
Italy	For alternative investment funds, see the response to question 1 under Principle 2 in the Introduction. See also the information provided by the European Commission regarding the amendments recently adopted to the regulation on credit rating agencies (in particular Article 5a of the CRA III Regulation) and to Article 15 of	For alternative investment funds, see the response to question 1 under Principle 2 in the Introduction. See also the information provided by the European Commission regarding the amendments recently adopted to the regulation on credit rating agencies (in particular Article 5a of the CRA III Regulation) and to Article 15 of AIFM	-	-	-

Annex C3: Investment Funds management (including collective investment schemes , alternative investment schemes, occupational retirement schemes, occupational retirement schemes)					
Application of the basic principles to particular financial market activities (Principle III)					
III.3 Internal limits and investment policies of investment managers and institutional investors (Principle III.3c)					
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	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
	AIFM Directive.	Directive. On July 22, 2013, Banca d'Italia and CONSOB within an initiative coordinated with IVASS and COVIP, issued communications ⁴⁴ within their remits on the use of ratings in the investment choices of collective portfolio managers. Both communications are aimed at reducing over-reliance on credit ratings.			
Japan	In Japan, all hedge fund managers are regulated as Financial Instruments Business Operators (investment managers) under the Financial Instruments and Exchange Act. See corresponding column in Investment managers section.	See corresponding column in Investment managers section.	See corresponding column in Investment managers section.	See corresponding column in Investment managers section.	See corresponding column in Investment managers section.
Korea	-	-	-	-	-
Mexico	There are no hedge funds in Mexico under the regulatory framework. For institutional investors such as banks, brokerage houses, mutual funds, etc., see the applicable sections.	There are no hedge funds in Mexico under the regulatory framework. For institutional investors such as banks, brokerage houses, mutual funds, etc., see the applicable sections.	There are no hedge funds in Mexico under the regulatory framework. For institutional investors such as banks, brokerage houses, mutual funds, etc., see the applicable sections.	There are no hedge funds in Mexico under the regulatory framework. For institutional investors such as banks, brokerage houses, mutual funds, etc., see the applicable sections.	There are no hedge funds in Mexico under the regulatory framework. For institutional investors such as banks, brokerage houses, mutual funds, etc., see the applicable sections.
Netherlands	-	-	-	-	-
Russia	-	-	-	-	-
Saudi Arabia	Their risk management procedures for setting the internal limits and investment policies may rely on CRA ratings.	No such requirements for private funds. However, all private funds are required to submit their offer documents and notifications to CMA at issuance.	Not applicable for private funds.	N/A	No.
Singapore	There are no specific references to CRA ratings, in respect of the regulation of alternative investment	Please refer to the inputs for "Investment managers (i.e. managers of collective investment schemes)"	Please refer to the inputs for "Investment managers (i.e. managers of collective investment schemes)"	N/A	Please refer to the inputs for "Investment managers (i.e. managers of collective investment schemes)"

⁴⁴ See http://www.bancaditalia.it/vigilanza/normativa/norm_bi/comunicazioni/Rating22lug.pdf ; <http://www.consob.it/main/documenti/bollettino2013/c0062557.htm>

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	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
	managers.				
South Africa	-	-	-	-	-
Spain	The Prime broker designated by a hedge fund must have a favourable credit rating awarded by a CRA. This requirement is stated in Orden EHA/596/2008 about CIS depositories.	Please see EC response.	-	-	-
Switzerland	Due to legal form and type of licence according to CISO there are no additional rules for this category (alternative investment manager like hedge funds). Endowments can release an investment policy. If this is not used general principles are applicable; regarding liquidity, earnings, security, risk diversification and preservation of capital.	-	-	-	-
Turkey	-	-	-	-	-
UK	-	-	-	-	-
USA	Other than the rules noted above relating to investment companies, the SEC does not mandate use of CRA ratings as part of a registered investment adviser's credit assessment process.	SEC examiners' review in this area is dependent upon the focus of the exam. For example if there are internal, contractual or disclosure limits on investment policies of the adviser and/or investors, we may review and test for compliance with these limits as part of our portfolio management review.	-	-	-

Annex C3: Investment Funds management (including collective investment schemes , alternative investment schemes, occupational retirement schemes, occupational retirement schemes)					
Application of the basic principles to particular financial market activities (Principle III)					
III.3 Internal limits and investment policies of investment managers and institutional investors (Principle III.3c)					
Managers of occupational retirement schemes.					
	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
Argentina	In 2009, the FGS's Executive Committee established the minimum CRA rating requirements for investments in long and short term assets. In addition, it established the procedure to follow when CRA ratings fall below those required minima. As mentioned, some investments are not subject to CRA rating requirements.	The National Congress and several control entities, such as the Office of the Comptroller General (SIGEN) and the Office of the Auditor General (AGN), review and require information periodically. Their role is to monitor that the investments are made according to the law and primary FGS's objectives.	Legal limits can only be changed by law passed by the National Congress. In addition, the FGS's Executive Committee has discretion to establish internal limits within those legal minima and maxima.	The Credit Risk Department prepares specific reports for each investment, analysing the risks inherent to each particular instrument.	The FGS is ultimately managed by the ANSES, which is the Argentine Social Security Administration. As such, the ANSES is subject to the scrutiny of the National Audit Offices (SIGEN and AGN) and the Social Security Bicameral Commission of the National Congress. The ANSES has followed the process for adjusting the FGS's investment policies described in a previous column.
Australia	APRA does not specifically set requirements on the internal limits or investment policies of regulated entities in their capacity as institutional investors. As such, there are no rules on the use (or otherwise) of CRA ratings by superannuation entities in making their investment decisions.	APRA reviews through onsite and offsite supervisory processes that regulated entities use due diligence in selecting investment options. Specifically, APRA is also developing a suite of prudential guidance material relating to investment governance for superannuation entities	APRA has powers to suspend or cancel a licence, if the regulated entity does not comply with the law. The law includes requirements to have adequate risk management systems. APRA has broad directions powers to influence the internal limits and investment policies.	-	-
Brazil	CRA's were used as a way to identify certain allowed investments, which should have a high level of rating.	The supervisor reviews if the regulation is adopted or not, if the concentration to certain investment corresponds to the patterns set by the rules. At least annually the company must complete a form, where it describes its operations.	Supervisors can establish the regulation of their market. Moreover, if a market participant does not comply with the established regulation, he may be subject to sanctions under administrative proceedings.	Internal limits and investment policies are reviewed, at least annually, as a part of the supervisory process.	This cannot be measured since the CRA rule was published last year. However, managers of occupational retirement firms are aware that they need to develop their risk management areas. Institutional investors, due to past CRA issues, are more careful with the use of CRA ratings.
Canada	Please see next column.	Pension plan investments are regulated under Schedule III of the federal <i>Pension Benefits Standards Regulations</i> , 1985. Most provinces adopt these rules by reference for plans under their respective jurisdictions.	-	-	-

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Managers of occupational retirement schemes.					
	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
		Pension plan administrators are required to invest the assets of a pension fund in accordance with the regulations and in a manner that a reasonable and prudent person would apply in respect of a portfolio of investments of a pension fund. Prudent investment practices require appropriate processes that include due diligence in selecting, reporting and monitoring investments. A plan administrator may therefore consider using credit ratings as part of their due diligence review.			
China	-	-	-	-	-
European Commission	-	New rules on IORPs set new obligations to competent authorities: Competent authorities are required to monitor the adequacy of the institutions' credit assessment processes, assess the use of references to credit ratings, in their investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings.	N/A	N/A	N/A
France	-	-	-	-	-
Germany	-	-	-	-	-
Hong Kong	As set out in MPF legislation, investment managers and trustees of MPF funds must consider the statutory minimum standards based on CRA credit ratings, among other things, when investing for these funds.	Investment compliance monitoring is discussed with trustees and managers of the schemes / funds during the course of supervision in assessing proper compliance with legislative requirements as well as the investment objectives and policy of the funds as set out in the governing rules of the	Non-compliance with MPF investment requirements may constitute breach of the MPF legislation or MPF investment code and appropriate disciplinary actions may be taken by the MPFA in respect of the breach. In all cases, the trustee/manager is required to rectify the situation by	Not applicable as internal limits and investment policies of trustees/managers for compliance with the legislative requirements are reviewed regularly as part of the supervisory process.	There is no indication that investment managers have made changes to the role that CRA ratings play in investment mandates or thresholds.

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		schemes/funds.	disposing of the impermissible investment and tightening internal controls (including amending the relevant investment policy and limits and establishing monitoring mechanism) to avoid further breaches.		
India					
Indonesia	-	-	-	-	-
Italy	Pension funds often do consider ratings in the definition of their investment policy and of the investment mandates to their asset managers, setting rating limits to the admissible investments. In the midst of the crisis of late 2011 the downgrading of several sovereign issuers brought portions of pension fund portfolios below these rating limits. Consistently with the <i>FSB CRA Rating Principles</i> , in January 2012 COVIP issued a note encouraging pension fund administrators to consider CRA ratings only as one of the factors to consider in the selection of investments. In the same note, for any needed changes of pension fund by-laws, aimed at easing the reference to CRA ratings, COVIP granted exemption from the general rule requiring prior approval by COVIP.	COVIP has always included the review of investment policy of pension funds as a major part of the supervisory activity. More specifically, in March 2012 COVIP introduced for all pension funds the requirement to produce a specific “Document on investment policy”, requiring a comprehensive review and the documentation of the investment process as a whole, including risk management and the process of selection of investments. The first set of documents was set to be due at the end of 2012 and is currently under scrutiny.	In the midst of the crisis of late 2011 the downgrading of several sovereign issuers brought portions of pension fund portfolios below the rating limits that were in place in their internal regulation, and/or in the contracts agreed with asset managers. Consistently with the <i>FSB CRA Rating Principles</i> , in January 2012 COVIP issued a note encouraging pension fund administrators to consider CRA ratings only as one of the factors to consider in the selection of investments. In the same note, for any needed changes of pension fund by-laws, aimed at easing the reference to CRA ratings, COVIP granted exemption from the general rule requiring prior approval by COVIP.	-	Yes, an easing in the reference to CRA ratings has been observed.
Japan	In Japan, almost all occupational retirement funds are managed in trust by trust banks, insurance companies and Financial Instruments Business Operators. See the corresponding sections in Banks, Insurance, and Investment	See the corresponding sections in Banks, Insurance, and Investment funds management.	See the corresponding sections in Banks, Insurance, and Investment funds management.	See the corresponding sections in Banks, Insurance, and Investment funds management.	See the corresponding sections in Banks, Insurance, and Investment funds management.

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	Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
	funds management.				
Korea	Credit ratings of domestic and foreign bonds are graded	Direct investments in both domestic and foreign non-investment grade bonds are prohibited.	Only those investments in investment grade bonds are permitted.	N/A	N/A
Mexico	-	-	-	-	-
Netherlands	-	-	-	-	-
Russia	-	-	-	-	-
Saudi Arabia	Do not exist. N/A	N/A	-	-	-
Singapore	N/A as private pension funds do not have a substantial presence in Singapore	N/A	N/A	N/A	-
South Africa	See section on Investment managers.	See section on Investment managers.	See section on Investment managers.	See section on Investment managers.	See section on Investment managers.
Spain	The managers of occupational retirements schemes don't tend to rely mechanistically and solely on credit rating agencies. They take into account the credit rating but it is part of their systems of analysing the risks of their portfolios.	New rules on IORPs set new obligations to competent authorities: competent authorities are required to monitor the adequacy of the institutions' credit assessment processes, assess the use of references to credit ratings, in their investment policies and, where appropriate, encourage mitigation of the impact of such references, with a view to reducing sole and mechanistic reliance on such credit ratings. The investment policy of the occupational retirement scheme needs to be established with documentary evidence. The compliance with the dispersion and diversification limits is controlled.	Besides the control on internal control and corporate governance of the manager of the occupational retirement scheme, the compliance with the particular investment policy of the occupational retirement scheme is verified (The definition of this policy corresponds to the Control Commission of the occupational retirement scheme).		
Switzerland	The foundation board has to define the principles of their investment policies. There is no requirement to rely explicitly on credit ratings. Yet CRA ratings are among the factors contributing to the investment risk	The supervisors can take appropriate recovery measures to eliminate any insufficiencies, for example if the pension fund does not respect the prudent investor principles.	For example, the supervisors can request information, issue instructions, order expert reports, revoke decisions of the pension fund board or even warn, reprimand or dismiss the foundation board.	In most instances, the CRA Principles were fulfilled prior to the publication of the principles.	See previous column.

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Description of the role played by CRA ratings in setting the internal limits and investment policies of investment managers and institutional investors	Role played by supervisors in reviewing the internal limits and investment policies of investment managers and institutional investors	Powers of supervisors to require changes to internal limits and investment policies	Additional reviews undertaken or are planned of these internal limits and investment policies to ensure compliance with the CRA Principles?	Do supervisors have any evidence that investment managers and institutional investors have made changes to the role that CRA ratings play in investment mandates, thresholds and triggers following the publication of the CRA Principles?
analysis.				
Turkey	-	-	-	-
UK	-	-	-	-
USA	-	SEC examiners' review in this area is dependent upon the focus of the exam. For example if there are internal, contractual or disclosure limits on investment policies of the adviser and/or investors, we may review and test for compliance with these limits as part of our portfolio management review.	-	-

	Annex C4: Collateral Policies for Central Counterparties				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes in respect of banks	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Argentina	The applicable law and regulation do not make references to CRA ratings. The central counterparties that clear and settle securities and derivatives are under the supervision of the CNV and, as such, prevented from relying on CRA ratings.	N/A	N/A	N/A	N/A
Australia	N/A	N/A	The Reserve Bank has determined Financial Stability Standards for central counterparties (CCP Standards) under the <i>Corporations Act 2001</i> that apply to all holders of an Australian Clearing and Settlement Facility Licence that operate a central counterparty. The CCP Standards require that a CCP effectively measure, monitor and manage its credit exposure. The Standards do not specifically address the use of CRA ratings, but, to the extent that the use of CRA ratings may affect the risk management practices of the CCP, this will be a consideration of the Reserve Bank when evaluating the CCP against the Standards.	The Reserve Bank assesses annually how well each clearing and settlement facility is complying with the Reserve Bank's Financial Stability Standards. Credit assessment processes are reviewed as part of this assessment process. In particular, CCP Standard 4 deals with credit risk and requires that a CCP have the capacity to monitor the creditworthiness of its participants, and CCP Standard 5 requires that a CCP should accept collateral with low credit, liquidity and market risk. The Reserve Bank expects CCPs to explain how they assess the creditworthiness of their participants, including any use of CRA ratings, and to report to it the distribution of internal credit ratings assigned to participants as a result of this assessment.	Any upward bias in firms' internal credit ratings would be contrary to the requirements of the Financial Stability Standards; for example, that a CCP should establish a robust framework to manage its credit exposures (CCP Standard 4.1), and that a CCP should cover its current and potential future exposures to each participant with a high degree of confidence (CCP Standard 4.4). In assessing these requirements the Reserve Bank regularly monitors and seeks explanations regarding any changes to the distribution of internal credit ratings used by CCPs.
Brazil	None, there is no reference to CRA ratings in Brazilian law and regulation on CCPs.	None, there is no reference to CRA ratings in Brazilian law and regulation on CCPs.	Not applicable as the use of CRA ratings was not established in CCPs' laws and regulations.	There are no supervisory processes to evaluate market participants' own credit assessment regarding collateral policies for CCPs.	None.
Canada	None	CDS Participant Rules 5.3.1	None.	None.	Not applicable. Use of CRA ratings is consistent with Bank of Canada's SLF collateral policy.
China	-	-	-	1. In accordance with the "Regulation on the Administration of Futures Trading", margin means the funds paid or standard warehouse receipts, treasury bonds and other negotiable securities with stable values and high liquidity submitted by futures traders,	-

Annex C4: Collateral Policies for Central Counterparties				
Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes in respect of banks	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
			<p>which are used for settlement and performance guarantee purposes.</p> <p>2. "Measures for the Administration of Futures Exchange " provides as follows: A futures exchange may accept the following negotiable securities to offset the margin: (1) Standard warehouse receipts recognized by the futures exchange; (2) Negotiable government bonds; (3) Other negotiable securities recognized by the CSRC. Where any negotiable securities as mentioned in the preceding paragraph are used to offset the margin, the time period for the offset shall not exceed the valid time period of these negotiable securities. Where any standard warehouse receipt is used to offset the margin, the futures exchange shall use the settlement price for the futures contracts of the recent delivery month, which is corresponding to the standard warehouse receipt of the trading day prior to the offset, as the benchmark computation value. A futures exchange may, according to the market situation, adjust the benchmark computation value of the negotiable securities to offset the margin. The amount of negotiable securities to offset the margin shall not be higher than the lower value of the following criterions: (1)80% of the benchmark computation value of negotiable securities; and (2) 4 times the actual monetary fund in the special settlement account of the member in the futures exchange.</p> <p>3. In practice, a futures exchange</p>	

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	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes in respect of banks	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
				currently only accepts standard warehouse receipt to offset margin.	
European Commission	Regulation No 648/2012 (EMIR) ⁴⁵ does not contain any references to credit ratings. Implementing measures (Commission delegated regulation No 153/2013) also did not include any references to credit ratings. Creditworthiness assessment for the purpose of CCPs' investment and collateral policy is based on a qualitative approach: it is specified that <i>'in performing such assessment the CCP shall employ a defined and objective methodology that shall not fully rely on external opinions'</i> ;	N/A	N/A	N/A	N/A
France	Please refer to European Commission response	N/A	-	-	-
Germany	Please refer to European Commission response.	N/A	Please refer to European Commission response	The adequacy of market participants' own credit assessment processes in respect of collateral policies for central counterparties is assessed in the course of the general supervisory approach towards CCPs on the basis of EMIR, its delegated acts and the German Banking Act. This includes regular audits specifically of the CCP's risk management as well as the notification of the CCP's contractual framework namely on collateral and haircuts to the supervisor.	N/A
Hong Kong	The reliance on CRA ratings by the clearing houses in Hong Kong is limited. The only reference to CRA ratings in the rules and procedures is in relating to the admission criteria of	N/A	N/A	N/A	N/A

⁴⁵ Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories

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	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes in respect of banks	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
	<p>General Clearing Participant. There is no CRA rating reference to collateral policies in the rules and procedures of the three clearing houses. References to CRA ratings in the counterparty risk management policies are made in the following areas for central counterparties ("CCPs"):</p> <ul style="list-style-type: none"> -Bank Guarantee ("BG") acceptance and limits (currently under review - intention is to phase out BG from the list of admissible collateral) -Foreign government securities admission -Settlement bank eligibility criteria <p>In each of the above areas, the three CCPs do not rely solely on CRA ratings to assess creditworthiness. There are other criteria to supplement the assessment. For example, market depth and size of the foreign government securities is one of the criteria to assess in their admission while in considering the on-going eligibility of a settlement bank its history of operational reliability are also assessed.</p>				
India	-	<p>With regard to collateral policy, the securities market regulator in India viz. SEBI vide circular no. CIR/MRD/DP/15/2010 dated April 28, 2010 and circular no. CIR/MRD/DRMNP/9/2013 dated March 20, 2013, inter-alia, permitted FIIs to place AAA rated foreign sovereign securities and AA and above rated corporate bonds as collateral towards their transactions in both cash and F&O segments. Since the bond market in India is in its</p>	<p>The Clearing Corporation of India Limited (CCIL) (the CCP under the regulation and supervision of RBI) is currently using ratings from CRA in deciding on margin requirements in certain segments and for investment purposes. Work is ongoing to develop an internal assessment process for credit risk exposures which can be used alongside CRA ratings to make the credit exposure control more effective.</p>	<p>Currently CCIL accepts only cash and Government Securities (sovereign exposure) as collaterals. Thus, the valuations of such collaterals are not likely to be impacted significantly for credit downgrades of the market participants.</p>	<p>CCIL does not currently use any internal ratings of the participants.</p>

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	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes in respect of banks	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		nascent stage, it was felt that, to start with, it would be prudent to permit rated bonds above a certain threshold to be given as collateral.			
Indonesia	-	-	-	-	-
Italy	See answer by the EC	Banca d'Italia and Consob's "Rules governing central depositories, settlement services, guarantee systems and related management companies", which are being substituted by the EMIR Regulation and the relevant Technical Standards (please see below): - Art. 56, 2 (<i>Margins</i>).	In the Italian regulatory framework on central clearing counterparties, changes in CRA ratings of participants to the guarantee system or of collateral received as margins are not automatic triggers for determining changes in margin calls on financial transactions	-	In reviewing internal models developed by banks ("IRB models") the Bank of Italy verifies that the internal ratings are in consistency with the creditworthiness of counterparties, analyzing on on-going basis the performance and the accuracy of the rating system. In case an external rating is available, a comparison between the internal rating and the CRA valuation is usually required. Further, for some portfolio which presents an extreme low default rate – as it is the case for external rated exposures - banks are required to use an adequate margin of conservativeness in PD estimation.
Japan	-	-	-	(Supervision) The FSA, on receiving an application for a license of Financial Instruments Clearing Organization, examines whether it has sound structure and system to properly and finally implement settlement including proper requirement for deposit, management of credible facilities for smoothly settlement, and so on.	-
Korea	No data is available as the CCP is not established in Korea yet.	-	-	-	-
Mexico	None	The Securities Market Law, establishes that the Central counterparties are self-regulatory organizations with the purpose of implement behaviour and operation standards among their members. The CCP, by operation of law, shall	N/A	According with our legal framework, CNBV has enough powers to regulate and supervise, the Mexican Securities CCP (Contraparte Central de Valores (CCV)). With respect to prudential rules, Banco de México and CNBV have power to veto.	N/A

	Annex C4: Collateral Policies for Central Counterparties				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes in respect of banks	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		<p>have the nature of self-regulatory organizations and depending on their type and of the activities of their own, may issue standards concerning.</p> <p>REFERENCES:</p> <p>1. "Prudential Rule that establishes the policies to invest the resources that will integrate the CCP funds": Banks where the resources may be invested must have been assigned by a CRA with a local rating equivalent to AA or higher. The CCP can only invest the guarantee funds in Banks with a higher rating of a CRA than the rating established in this Prudential Rule.</p> <p>2. "Measure of the administration risk system that establishes the criteria for CCP to accept letters of credit to integrate funds."</p> <p>CCP will only accept letters of credit issued by institutions that have been assigned with the highest rating of a CRA.]</p> <p>Concerning rule 1, Banco de México and the CNBV have power to veto.</p> <p>In relation with measure 2, the above mentioned authorities may order amendments.</p> <p>Banco de México and the National Banking and Securities Commission (CNBV) are evaluating the convenience of removing these rules.</p>			
Netherlands	-	-	-	-	-
Russia	-	Regulation of the Bank of Russia N 2919-U of 03.12.2012 on the assessment of risk governance of	-	-	-

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		credit institution performing the functions of central counterparty. Annex 1, sections 3.3.2, 3.3.3., tables 4 and 6. If the quality of CCP risk governance is assessed as satisfactory lower risk ratio (0.05) is applied to exposures to such CCP.			
Saudi Arabia	Not applicable as there is no central counterparty in SA.	N/A	N/A	N/A	N/A
Singapore	There are no references to CRA ratings in the Securities and Futures Act (Chapter 289) and Securities and Futures (Clearing Facilities) Regulations 2005.	There are no references to CRA ratings in the Securities and Futures Act (Chapter 289) and Securities and Futures (Clearing Facilities) Regulations 2005.	There are no references to CRA ratings in the Securities and Futures Act (Chapter 289) and Securities and Futures (Clearing Facilities) Regulations 2005.	CCPs have in place credit assessment processes in respect of their collateral policies. For instance, CCPs conduct internal assessments to ensure that only quality collateral with low credit, liquidity and market risks are accepted and apply conservative haircuts accordingly. Assessments of credit risks include monitoring for any adverse news or developments in relation to the particular collateral. Any changes to CCPs risk management practices in relation to collateral policies are subject to MAS' approval. MAS will check for adequacy of CCPs' own credit assessment to ensure robustness of the CCPs' risk management practices.	To guard against any upward biases in CCPs' internal ratings, MAS expects that any changes to the internal ratings are subject to CCPs' Risk Management Committees' (RMCs') approval. The role of the RMCs is to ensure that there is sufficient oversight of risk managements at the CCPs.
South Africa	Neither the CCP regulations promulgated by the Securities Regulator (Financial markets Act, 2013), nor the CCP rules promulgated by the exchange (JSE) itself have references to any reliance on CRA ratings. The Investment policy that the CCP uses for the purposes of investing initial margins deposited by clearing members relies on CRA ratings.	None	None	None	None
Spain	See EU response	-	-	-	-
Switzerland	CCPs are regulated as banks. Please refer to the answers regarding banks.	CCPs are regulated as banks. Please refer to the answers regarding banks.	CCPs are regulated as banks. Please refer to the answers regarding banks.	CCPs are regulated as banks. Please refer to the answers regarding banks.	CCPs are regulated as banks. Please refer to the answers regarding banks.

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Turkey	-	-	-	-	-
UK	None applicable.	None applicable.	N/A	The European Market Infrastructure Regulation (EMIR) that came into effect for CCPs on 15 March 2013 will require some changes to CCPs' assessment of collateral eligibility both as margin requirements and securing cash investments, as they require less reliance on CRA ratings. In particular, CCPs will need to conduct internal credit assessments of issuing parties to ensure low credit risk of issuers, moving away from looking predominantly at credit ratings for this assessment. Aside from collateral, CCPs have to rate counterparties to determine if they will be acceptable as members, interoperable CCPs and as investment counterparties. For this, CCPs have their own internal credit assessments, which include several factors (c. 10-20) such as capital ratios, liquidity ratios, profitability, and CRA ratings are only one input into these. Therefore, for their counterparty assessments in these areas they are not relying on CRAs' ratings.	CCPs will be moving to internal ratings based credit assessments in becoming compliant with the EMIR regulation. As part of the Bank of England's review of these frameworks, ensuring that upward bias is avoided will be a key consideration. CCPs currently use internal credit assessments for assessing clearing member, interoperable CCP and investment counterparty credit worthiness. Ensuring that there is appropriate governance around setting and amending ratings is a key consideration by the Bank of England, particularly where expert judgement is used in the credit score methodology. We have reviewed these credit assessment criteria as part of our supervisory process.
USA	17 CFR § 1.25 17 CFR § 1.49 17 CFR § 30.7	N/A	No specific alternative standard. In amended Rule 1.25, the Commission adopted new language to facilitate the preservation of principal and maintenance of liquidity by establishing clear, prudential standards that further investment quality and portfolio diversification and to remove references to credit ratings.	The SEC has two primary supervisory processes that would evaluate the credit assessment processes for collateral risk management at CCPs: (1) review and analysis of proposed rule changes by CCPs and (2) examination of the CCP's compliance with relevant rules and regulations. The SEC Staff reviews rule proposals from self-regulatory organizations, including CCPs registered with the SEC, for consistency with the Exchange Act standards of investor protection, fair and orderly operation	-

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			<p>of the markets and market structure, as well as other statutory requirements. Rule proposals can be submitted for immediate effectiveness for certain types of filings, including non-controversial changes, rules relating to fee filings, or so called "copy-cat" rule filings related to proposed rule changes other than trading rules. Rule proposals not submitted for immediate effectiveness require SEC review and approval or disapproval. CCPs registered with the SEC generally establish collateral haircuts in their respective rulebooks, and such haircuts do not specifically refer to credit ratings. Changes to collateral haircuts in such rulebooks would be subject to SEC approval or disapproval through the rule proposal process described above.</p> <p>When conducting an examination of a CCP, the SEC Staff may review a variety of the CCP's risk controls, including the CCP's credit assessment for its collateral policies. The Staff examination methodology may include reviewing pertinent policies, procedures and rule; interviewing key management and personnel; testing; and analysing information and source documents.</p>	

Annex C4: Collateral Policies for Central Counterparties						
Application of the basic principles to particular financial market activities (Principle III)						
III.4 Central counterparties and private sector margin agreements (Principle III.4a)						
	Description of the role played by CRA ratings in the margin requirements and risk assessments processes of the CCPs.	Have the CCPs or the supervisory authorities conducted stress tests or estimated the pro-cyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities?	Whether the CCPs or the supervisory authorities assessed the reliance on credit ratings in the investment policy of the CCP?	Role is played by supervisors in reviewing private sector margin agreements	Powers of supervisors to require changes to private sector margin agreements	Additional reviews undertaken or planned of private sector margin agreements to ensure compliance with the Principle
Argentina	N/A	N/A	N/A	Transactions settled through the BCRA are subject to the margins required by the BCRA. CCPs apply margin requirements within ranges previously approved by the CNV.	The CNV is empowered by law to require changes in the level of margin requirements even though there has been no such occasion. Margins do not depend on CRA ratings.	N/A
Australia	CRA ratings play no direct role in the margin methodologies used to calculate initial margin. However, CRA ratings do play some role in policies to do with the collection of margin and risk assessment processes. The CCPs calculate an internal credit rating, which is based in large part on CRA ratings, although other financial metrics, such as net tangible assets, are also applied, and management discretion may be used. Notwithstanding these instances of the use of CRA ratings, the Reserve Bank in its most recent 2011/12 Assessment of Clearing and Settlement Facilities in Australia was generally satisfied that the CCPs were applying an appropriate risk management framework.	The Financial Stability Standards require that a CCP appropriately address pro-cyclicality in its collateral arrangements. Specifically, a CCP must establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions in order to reduce the need for pro-cyclical adjustments (CCP Standard 5.4). The broad approach of the Australian CCPs in the application of their risk management framework is to retain management discretion in the determination of risk settings, so as to take into account the future potential effects of a stressed market, which might include the scenario of a sudden downgrade of the credit ratings of some widely used securities.	The Reserve Bank's 2011/12 Assessment of Clearing and Settlement Facilities in Australia included a focus on treasury investment policy. This was also discussed in the Bank's assessments in 2007/08 and 2008/09. While not specifically examining the reliance on credit ratings in the investment policy, these reviews have more generally been concerned to ensure that the CCP establishes counterparty eligibility criteria and sets investment limits to control investment counterparty risks.	The role of authorities in reviewing private sector margin agreements will be considered in light of the outcome of BCBS-IOSCO work on the margining of non-centrally cleared derivatives.	See previous response.	See the fourth column from the left.
Brazil	CCPs use internal models to require margin and assess their risk. The use of CRA ratings is not mandatory.	Not applicable as CRA ratings are not mandatory for Brazilian CCPs.	Not applicable as CRA ratings are not mandatory for Brazilian CCPs.	Risk models employed by CCPs are evaluated by the Central Bank of Brazil.	According to Circular BCB 3.057 of 2001, article 22, the Central Bank of Brazil has to approve any changes in rules for risk management of CCPs	N/A

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					or other clearings or payment systems.	
Canada	Credit ratings do not play a direct role in the margin requirements. Credit ratings may have an indirect impact on margin requirements as they could impact market volatility which has a direct impact on margin requirements. Additional margin can be requested based on the credit risk of the CCP participant, CRA ratings are a factor in determining the credit risk.	No	This is being conducted as part of the Principles for Financial Market Infrastructures assessment.	CCP Supervisors do not have any role in reviewing bi-lateral margin agreements. Supervisors do review and approve CCP margin agreements.	Supervisors must approve CCP margin agreements / frameworks. CRA ratings do not play a direct role in margin requirements.	CCP margin agreements / frameworks are reviewed.
China	-	-	-	-	-	-
European Commission	N/A	N/A	N/A	N/A	N/A	N/A
France	The ratings are not a key element of the initial margins models of the CCP and risk assessment processes. However, the rating is taken into account as a parameter among other to evaluate the credit risk of the CCP on the clearing member and then to determine if additional margins are necessary. The haircut applied to securities accepted as collateral depends on both the modified duration and the nature (i.e. country of issue) of securities	No. Under the Collateral Policy of the CCP, securities acceptable as collateral are explicitly listed and as such do not rely on CRA ratings.	The reliance on credit ratings in the investment policy of the CCP is limited by the provisions detailed in Article 47 of Regulation (EU) No 648/2012 (EMIR) and Article 45 of the Delegated Regulations (The Regulatory Technical Standards). Counterparty Risk is assessed under a Credit Assessment Policy which uses CRA ratings as part of an internal Credit Assessment Toolbox but not solely rely on them. Security purchases are limited to ECB eligible instruments; no	As a credit institution in France a CCP is subject to the periodical review of its risk models by the national banking supervisor. Furthermore EMIR gives the National Competent Authorities and the College of supervision a validation role of any material change in the risk models used for margin determination.	No explicit powers are given to the supervisors as risk management should be an independent function of the CCP. Nevertheless EMIR and the RTS developed by ESMA impose risk models to be reviewed periodically and more importantly not to depend explicitly on CRA ratings as well as to avoid any pro-cyclical effects. As such cliff or triggering effects induced by the use of CRA ratings must be avoided.	N/A (private sector margin agreements should be routinely reviewed in the case of CCPs under EMIR)

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	deposited as initial margin, which are divided into nine classes. Certain collateral can from time to time be subject to additional haircuts above those stated. The haircut determination methodology incorporates many parameters out of which, though while avoiding cliff-edge effects, credit ratings.		reference to CRA ratings is made of in the Investment Policy of the CCP.			
Germany	Ratings do not play a significant role in a CCPs margin requirements and risk assessment processes. For the calculation of the initial margin CCP typically use different parameters, for example VaR, correlation breaks, correlation errors and liquidity adjustments. Also, the CCP uses different scenarios for the calculation of the initial margin, e.g. stressed time periods. Parameters chosen to perform back-testing and sensitivity analysis are e.g. volatility, scaling factor and liquidation period. Legal basis is EMIR and its delegated acts. Altogether, CCPs don't use ratings for above mentioned calculations .	CCPs check on a daily basis whether the haircut is still appropriate. Through this approach a sudden need for an additional margin should be avoided. As one element, the CCP requires an external minimum rating for collateral pledged. If the rating falls below a defined level, the CCP will request different collateral from his clearing members. A routine basic assessment of the risk management, which includes the assessment of the stress testing of the CCP is done on a regular basis. Furthermore, BaFin informs ESMA on significant changes in a CCPs risk management with respect to effects on other markets.	CCPs set-up their own investment policy. The CCPs e.g. have strict limits which determine maximum amount of investments to other counterparties. Underlying legal framework is now EMIR and its delegated acts. The internal counterparty ratings and other parameters are reviewed by the CCP on a daily basis.	On the basis EMIR and its delegated acts the CCP is obliged to notify the authority any information of significant changes in private sector margin agreements before becoming effective. This practice is also reviewed by the authority on a regular basis.	CCPs are subject to the German Banking Act as applicable besides EMIR. This namely entails all enforcement powers necessary to ensure compliance with EMIR and its delegated acts. This would include private margin agreements with supervisory relevance.	N/A
Hong Kong	Please refer to response under "References to CRA ratings in	As mentioned in a. above, CRA ratings do not play any part in	Whilst credit quality as determined by CRAs is an	N/A	N/A	N/A

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	<i>laws and regulations</i> ". Credit ratings do not play any part in the clearing house margin determination. It is nevertheless one of the factors taken into account by the respective clearing houses in (1) considering the acceptability of US government securities and BG; and (2) the amount of BG that would be accepted.	the determination of the overall margin requirement of CCP participants although it affects the acceptability and amount of BG that would be accepted.	investment criteria stated in the investment policy, it is not the only criteria in the investment decision process. In addition, the CCPs are in the process of establishing its own "credit library" whereby fundamental credit analysis will be done in-house to supplement external analysis.			
India	<p>The role played by ratings in the risk management framework prescribed by SEBI is very minimal. The rated instruments permitted to be accepted as collateral such as AAA foreign sovereign securities are not being placed towards margins and the AA and above rated corporate bonds have been permitted only recently.</p> <p>The credit ratings from CRA are used for:</p> <ul style="list-style-type: none"> i. calculation of margin factor in certain segments; ii. Stepping up the Initial Margin in certain segments iii. estimating the loss absorption capability of members in case of default 	SEBI is reviewing the stress testing norms prescribed for the CCPs in line with the CPSS IOSCO principles. In the proposed norms, CCPs are being mandated to develop several stress scenarios to test the sufficiency of SGF. The proposed norms, inter-alia, prescribe stringent requirements over and above those prescribed in the IOSCO principles. Currently, CCIL accepts only cash and Government Securities (sovereign exposure) as collaterals. Thus, the valuations of such collaterals are not likely to be impacted significantly for credit downgrades.	CCP uses the credit ratings for investment. The minimum rating for investment etc. have been clearly stipulated in the investment policy of the CCP which is reviewed by the supervisor/regulator. However, the securities market regulator, viz. SEBI has constituted a Committee on Clearing Corporations to examine, inter-alia, investment by a recognized CC and the manner of utilization of profits of CCs. The committee is examining the issue.	SEBI only prescribes risk management requirements for products traded on the screen based platform provided by recognized stock exchanges.	N.A.	N.A.
Indonesia	-	-	-	-	-	-
Italy	As far as the initial margin	No specific stress-test has been	No specific stress-test has been	For certain kind of transactions	-	-

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	<p>model is concerned, according to the Regulatory Technical Standards, a CCP shall ensure that its policy delivers forward looking, stable and prudent margin requirements that limit pro-cyclicality.</p> <p>The Regulatory Technical Standards provide that the haircuts to apply to collateral value shall be determined taking in consideration the relevant criteria, including the type of asset and level of credit risk associated with the financial instrument based upon internal assessment by the CCP. In performing such assessment the CCP shall employ a defined and objective methodology that shall not fully rely on external opinions. Moreover, as far as Government bonds are concerned, the Bank of Italy has recently supported the Italian CCP in the definition of an appropriate methodology for the assessment of sovereign risk. This framework, in order to avoid pro-cyclicality, takes into account a set of different dynamic market factors to monitor country risk and is not limited to considering as indicators exclusively the</p>	<p>conducted so far.</p>	<p>conducted so far. The reliance on credit ratings is only one of the factors that the Italian CCP considers in its investment policy. Moreover, as already mentioned above, rules related to CCPs' investment policy are being substituted by the EMIR provisions and the relevant Regulatory Technical Standards.</p>	<p>(i.e. derivatives) BoI verify the adequacy of margins quantification in the context of counterparty credit risk model validation. These activities, which involve the most relevant banking groups allow the supervisor to verify the soundness of the methodologies used by banks to compute margins.</p>		

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	breaching of a single static threshold or credit rating downgrades.					
Japan	The eligibility of special securities, corporate bonds and yen-denominated foreign bonds as collateral securities is judged considering creditworthiness of issuing companies, including all credit ratings obtained by Eligible Credit Rating institution are single-A or higher.	Domestic Financial Instruments Clearing Organizations conduct risk management based on the CPSS-IOSCO Principles for FMI (financial market infrastructures).	When a Financial Instruments Clearing Organization intends to amend the articles of incorporation or business rules, it shall obtain authorization from the FSA.	When a Financial Instruments Clearing Organization intends to amend the articles of incorporation or business rules, it shall obtain authorization from the FSA.	When the FSA finds it necessary for public interest or protection of investors, it may order a Financial Instruments Clearing Organization to take necessary measures for changing the contents and methods of its business or improving its business operation, within the limit necessary.	N/A (The FSA has the authority to periodically inspect clearing organizations for financial products)
Korea	-	-	-	-	-	-
Mexico	The margin requirements and risk assessments processes do not consider CRA ratings. CRA ratings are only considered in CCV's policies to invest resources to integrate its funds. Therefore, ratings do not have a significant role in risk assessments processes.	No. Nevertheless, the vast majority of participants' collateral is cash.	No	-	-	-
Netherlands	-	-	-	-	-	-
Russia	The role of credit ratings in margin requirements and risk assessment processes is not significant. For example, credit ratings might be used by CCPs as one of many criteria for internal assessment of CCP participants.	The main scenario for stress tests assesses the impact of default (significant rating downgrade) of two major CCP participants on the financial soundness of CCP during the financial market shock the reason for which might be inter alia the significant downgrade of credit ratings of widely used securities.	In accordance with Bank of Russia Order N 2919-U of 03.12.2012 "On the assessment of risk governance of credit institution performing the functions of central counterparty" one of the factor of CCP's investment risk assessment is the analysis of distributions by ratings of CCP's financial investments.	-	-	-

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Saudi Arabia	No CCP in Saudi Arabia	N/A	N/A	N/A	N/A	N/A
Singapore	CCPs use CRA ratings in determining the types of government securities that are acceptable as collateral. CCPs may impose higher margins where the credit risk of a member deteriorates, and the CRAs of the members may be taken into consideration in this assessment. Other factors which CCPs consider include evaluation of the participant's financial condition, risk management systems and controls.	CCPs have collateral policies to ensure that there is no concentration in any particular asset class. As government securities make up only a small percentage of CCPs' total collateral, the impact of a sudden downgrade in credit ratings is not significant.	CCPs do not invest collateral posted with them.	MAS does not review private sector margin agreements, which we take to be bilateral trades that are not cleared through a central counterparty. Insofar as the counterparties to the trade are under MAS' regulatory purview (e.g. banks), MAS would review their credit risk management procedures in the course of our on-site and off-site supervision.	As mentioned above, MAS does not review private sector margin agreements. However, MAS may review the credit risk management frameworks of MAS-regulated private sector participants and require enhancements to the processes on a supervisory basis.	NA.
South Africa	The CRA ratings play no direct role in the setting of margins. Initial margins are currently required in cash. CRA ratings are however used in the setting of the investment policy applied by the CCP in the investment of initial margins placed with the CCP by the clearing members.	Initial margin requirements are not dependent on credit ratings and the CCP only accepts margin in the form of local currency cash. To date the stress testing framework has not been extended to include CRA rating downgrades as initial margins are all placed as cash.	Yes, the investment policy of the CCP is approved by the Board of the CCP.	The supervisors review margin agreements at the CCP when granting licence approval.	The supervisors have no power in this regard.	None
Spain	MEFF Sociedad Reitora de Productos Derivados, S.A.U. (hereafter MEFF) is the official secondary Spanish derivatives market which runs both the exchange and the CCP activity. MEFF uses the ECB criteria for	MEFF assesses the effect of a sudden downgrade of the credit rating on the collateral posted by its clearing members. Nonetheless there are no exhaustive policies developed at this stage. Once Regulation	MEFF assesses the solvency of the counterparties and of their instruments on a global basis as a part of its investment policy.	-	-	-

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	selecting the level of rating assigned to a particular entity ⁴⁶ .	(EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR) comes fully into force this issue would be conveniently addressed.				
Switzerland	Since CCPs are currently regulated as banks under the Swiss Regulatory Framework, the same limitations as for banks apply to them. In addition CCPs are subject to requirements under the National Bank Ordinance (NBO), which is currently being revised and will probably enter into force by mid of 2013. The new NBO aims at implementing the new CPSS/IOSCO international standards (Principles for Financial Market Infrastructures) as well as helping to create a legal and regulatory framework for CCPs in Switzerland which is equivalent to that in the EU. Currently, ratings play a role for the CCP under Swiss jurisdiction (SIX x-clear Ltd.) in two cases. Firstly, it uses external credit ratings to define	To our knowledge the CCP under Swiss jurisdiction (SIX x-clear Ltd.) has not conducted stress tests nor estimated the pro-cyclical effect of a sudden downgrade of widely used securities. With the new requirements in the NBO as described above, the regulators will require CCPs to account for countercyclical effect in their procedures that potentially includes stress testing.	The CCP under Swiss jurisdiction (SIX x-clear Ltd.) currently does not invest its cash holdings actively but holds all assets with their Swiss CSD (SIX SIS Ltd.).	Actually there is no regulation in place governing the aspects of margining arrangements on a bilateral basis related to CCP Clearing. This means especially the relationship between Clearing Members and their clients.	The supervisory authority possesses no such powers.	No such reviews are currently planned. However, in the course of the legislation process for the new Financial Market Infrastructure Act this may be re-evaluated.

⁴⁶ For more information, please see the CCP FAQs (in English) published at the MEFF's website: http://www.meff.es/docs/ing/Normativa/MEFF_CCP_FAQs.pdf

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Application of the basic principles to particular financial market activities (Principle III)						
III.4 Central counterparties and private sector margin agreements (Principle III.4a)						
	Description of the role played by CRA ratings in the margin requirements and risk assessments processes of the CCPs.	Have the CCPs or the supervisory authorities conducted stress tests or estimated the pro-cyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities?	Whether the CCPs or the supervisory authorities assessed the reliance on credit ratings in the investment policy of the CCP?	Role is played by supervisors in reviewing private sector margin agreements	Powers of supervisors to require changes to private sector margin agreements	Additional reviews undertaken or planned of private sector margin agreements to ensure compliance with the Principle
	the level of initial margin to be paid by its clearing members (clearing members' initial margin requirement increases in case their rating falls below a certain rating threshold). Secondly, the rating of the accepted collateral is one of the factor SIX x-clear Ltd. uses to determine its haircut.					
Turkey	-	-	-	-	-	-
UK	The creditworthiness of clearing members and interoperable CCPs is assessed by CCPs through internal member monitoring frameworks and credit score methodologies, as opposed to having a direct impact within the margin methodologies used by the CCPs. Based upon these credit assessments, CCPs may trigger risk mitigation through, for example: reducing the member's exposures; calling additional margin; reducing credit tolerance for intra-day margin calls and concentration risk margin add-ons. Credit ratings will play a limited role within the member scoring methodologies. Various other inputs are used by CCPs including for example: market implied ratings (CDS or bond spread based); financial ratios;	CCPs' margining models are not based on CRA ratings therefore there is no impact on total margin called due to a change in ratings. A rating change may lead to an additional call for funds (or release of funds) if collateral the clearing member has posted is impacted by the downgrade/upgrade. However, CCPs do not typically mechanically alter the acceptability of collateral or haircuts applied to acceptable collateral due to changes in credit ratings. A downgrade or upgrade may change the haircut but that is not always the case. The haircut calculations are based on models which do not include CRA ratings rather are based on historical price moves or spread movements. A downgrade of credit ratings	CCPs will assess the credit worthiness of investment counterparties and issuers of securities used to secure cash investments. Credit ratings will form a subset of the internal credit scores assigned to investments counterparties, in a similar way to how clearing members are assessed. The Bank of England's review of these internal scoring methodologies considers the degree of reliance on external credit ratings, ensuring that there is a sufficiently broad and relevant set of inputs into the scoring process, both quantitative and qualitative. As noted in the previous section, the methodologies used by CCPs include various factors of which CRA ratings is one.	Article 11 of the EMIR Regulation requires counterparties to bilateral positions to, inter alia, measure, monitor and mitigate their counterparty credit risk. Regulatory Technical Standards will be implemented to detail these requirements, following the development of policy by the BCBS-IOSCO Working Group on Margin Requirements.	Please see answer in previous column.	Please see answer in the fourth column from the left.

Annex C4: Collateral Policies for Central Counterparties						
Application of the basic principles to particular financial market activities (Principle III)						
III.4 Central counterparties and private sector margin agreements (Principle III.4a)						
	Description of the role played by CRA ratings in the margin requirements and risk assessments processes of the CCPs.	Have the CCPs or the supervisory authorities conducted stress tests or estimated the pro-cyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities?	Whether the CCPs or the supervisory authorities assessed the reliance on credit ratings in the investment policy of the CCP?	Role is played by supervisors in reviewing private sector margin agreements	Powers of supervisors to require changes to private sector margin agreements	Additional reviews undertaken or planned of private sector margin agreements to ensure compliance with the Principle
	assessments of operational capability and business strategy; and support. The credit standing of sovereigns is considered by LCH.Clearnet Ltd. as part of its Sovereign Risk Framework. The indicators used in this framework include a wide range of market based indicators, without reliance on external credit ratings.	may, combined with other a number of other factors, lead to a change in the haircuts applied to such securities, affecting the level of collateral that will be required to be lodged by the CCP. ESMA has put in place a protocol amongst EU regulators to take into account the pro-cyclical impacts of CCPs' actions including margin calculations (through EMIR). Therefore CCPs have to have regard to pro-cyclicality when reviewing the CCPs' risk methodologies.				
USA	In general, CCPs registered by the SEC do not use credit ratings issued by CRAs in their processes for determining initial margin, clearing fund, or guaranty fund requirements. In addition, credit ratings are generally not used as inputs into valuation models, sensitivity analysis, back testing, stress testing, or other risk controls. However, one CCP has established a haircut schedule to determine margin for a subset of the products that it clears that incorporates external credit ratings. Additionally, all CCPs registered with the SEC use an	In general, CCP margin methodologies do not rely on credit ratings. Instead, margin methodologies are designed to capture one to five days of potential profits and losses associated with market price moves. As a result, typically stress testing conducted by a CCP does not include historical or hypothetical scenarios that are exclusively based on a sudden downgrade of external credit ratings. Instead, CCPs tend to stress test portfolio responses to extreme market price moves. As part of the CCPs' credit risk assessment and monitoring of its clearing	When conducting an examination of a CCP, the SEC Staff may review the CCPs' investment policy. The review of the investment policy may focus of the types of collateral invested for working capital and clearing fund/margin fund cash. The level of reliance on external credit ratings differs between CCPs. For some CCPs, issuer ratings are considered in determining credit limits for counterparties, and investments in certain products.	N/A	N/A	N/A

Annex C4: Collateral Policies for Central Counterparties						
Application of the basic principles to particular financial market activities (Principle III)						
III.4 Central counterparties and private sector margin agreements (Principle III.4a)						
Description of the role played by CRA ratings in the margin requirements and risk assessments processes of the CCPs.	Have the CCPs or the supervisory authorities conducted stress tests or estimated the pro-cyclical effect, on the overall margin requirements for the CCP participants, of a sudden downgrade of the credit ratings of some widely used securities?	Whether the CCPs or the supervisory authorities assessed the reliance on credit ratings in the investment policy of the CCP?	Role is played by supervisors in reviewing private sector margin agreements	Powers of supervisors to require changes to private sector margin agreements	Additional reviews undertaken or planned of private sector margin agreements to ensure compliance with the Principle	
<p>internal “Watch List” rating system to assess the risk of its clearing members. CCPs use a variety of quantitative and qualitative inputs to determine the risk rating of its clearing members. These internal ratings can be used to require clearing members to post additional margin, on top of the base initial margin charge. Two of the seven CCPs registered with the SEC use credit ratings issued by CRAs as one of many inputs into their internal rating process for members.</p>	<p>members and other entities that have either a banking, custodial, collateral or counterparty relationship, CCPs may include qualitative considerations, one of which. Given the limited CCP reliance on credit ratings for establishing margin requirements, the SEC has not conducted stress tests on the effect of changes in haircuts resulting in the downgrade of widely used securities. When conducting an examination of a CCP, the SEC Staff may review the CCPs’ margin methodology, including stress testing and back-testing. In the event that CCPs wanted to change the haircuts established in their rules, a proposed rule change would be filed with the SEC. At that time, the SEC Staff would evaluate the effect of that proposed rule change. In addition, any such changes may be the subject of future examinations by the SEC Staff.</p>					

	Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Argentina	<p>The CNV had modified the regulatory framework for CRAs deleting Decree N° 656/92 (23/04/92) which established that “no authorization will be granted for the public offering of private debt securities without the previous submission of two (2) risk ratings assigned by different and independent Rating Agencies entitled for that purpose”.</p> <p>Decree 749/00 (29/08/00) replaced this requirement in the following way: “At the request of the issuers, the rating agencies may rate any movable assets, subject to public offering or not. Notwithstanding, the CNV may establish a compulsory rating if required”.</p>	Section 15, Chapter XV, CNV's Regulations.	The new Capital Markets Law introduced the assessments by National Universities or some other authorized organizations, leaving behind CRAs' exclusivity. The issuer may hire a CRA or an authorized university, supervised by CNV for that purpose, or none of them. Its importance, in context, will be known once the regulation is implemented.	N/A. Please refer to section on Securities Firms operating on an agency basis.	N/A
Australia	On 12 November 2009, ASIC announced its decision to withdraw earlier relief, with the effect that credit ratings may not be cited without consent in a disclosure document, PDS, target's statement or bidder's statement dated after 1 January 2010—see ASIC Class Orders [CO 07/428], [CO 07/429] and [09/1084], ASIC Information Sheet 99: <i>Disclosure of credit ratings in Australia</i>	ASIC Class Orders [CO 07/428], [CO 07/429] and [09/1084], ASIC Information Sheet 99: <i>Disclosure of credit ratings in Australia</i>	None. ASIC will continue to monitor international developments that relate to securities issuance within its regulatory perimeter, and implement relevant commitments as required.	ASIC monitors the conduct of certain market participant, which may include a targeted surveillance or reactive surveillance to address risk arising from credit assessment processes.	No specific procedures.
Brazil	-	<p>Resolution CMN 2.907/2001 article 1°, paragraph 2</p> <p>CVM Rule 356/2001 article 3</p> <p>CVM Rule 399/2003 article 3</p> <p>CVM Rule 404/2004 article 3 and annex 1 – V, “n” – of the standardized debenture</p> <p>CVM Rule 414/2004 article 7,</p>	Investment manager to make his own credit analysis, which may or may not consider a CRA rating, and is therefore responsible for the analysis.	Where a rating is required, it shall be issued by a CRA registered with the CVM in order to provide investors with extra information. Mortgage Backed Securities and Receivables Investment Funds' managers should file with the Commission on an annual or quarterly basis respectively, periodic information regarding the quality of the credit owned. Moreover, CVM has a permanent workgroup that studies real-estate debt securities and	The investment firms should have their own investment risk areas, which should have independence from other areas, and an exclusive independent director.

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	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		paragraph 6		constantly communicates with market participants in order to assess if the credit analysis is actually done.	
Canada	None noted	<p>National Instrument 41-101 General Prospectus Requirements</p> <p>Section 1.1 “full and unconditional credit support”</p> <p>Section 7.2 “Non-fixed price offerings and reduction of fixed price”</p> <p>Section 10.1(4) “Consent of experts”</p> <p>Form 41-101F1 Information Required in a Prospectus</p> <p>Section 10.9 Ratings (similar provision in s. 21.8 Form 41-101F2 <i>Information Required in an Investment Fund Prospectus</i>; s. 7.9 Form 44-101F1 <i>Short Form Prospectus</i>; and s. 7.3 of Form 51-102F2 <i>Annual Information Form</i>)</p> <p>National Instrument 44-101 Short Form Prospectus Distributions</p> <p>Section 1.1 “Definitions”</p> <p>National Instrument 44-101 <i>Short Form Prospectus Distributions</i></p> <p>Section 1.1 “Definitions”</p> <p>Section 2.3(e) “Alternative Qualification Criteria for Issuers of Approved Rating Non-Convertible Securities”</p> <p>Section 2.4 “Alternative Qualification Criteria for Issuers of Guaranteed Non-Convertible Debt Securities, Preferred Shares and Cash Settled Derivatives”</p> <p>Section 2.6 “Alternative Qualification Criteria for Issuers of Asset-Backed</p>	We have not developed any alternative standards of assessment for the purpose of replacing references to CRA ratings at this time. We will continue to monitor international developments regarding appropriate alternative proxies to credit ratings.	At this time, we have not developed any supervisory processes and procedures to review credit assessment processes of reporting issuers.	None. See our response in the left column.

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	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		Securities” National Instrument 44-102 Shelf Distributions Section 2.3 “Shelf Qualification for Approved Rating Non-Convertible Securities” Section 2.4 “Shelf Qualification for Guaranteed Non-Convertible Debt Securities, Preferred Shares and Cash Settled Derivatives” Section 2.6 “Shelf Qualification for Asset-Backed Securities” National Instrument 45-106 Prospectus and Registration Exemptions Section 1.1 “Definitions” Section 2.34 “Specified debt” (Corresponding provision for registration requirement is section 3.34) Section 2.35 “Short-term debt” (Corresponding provision for registration requirement is section 3.35)			
China	None	Article 15, “Business Operational Provision on Securitization of Security Company” Article 7 , section 2, “Pilot Program Method on Corporate Bonds” 2.1&2.2, Section 2, “Regulation on Corporate Bonds Listed on Shanghai Stock Exchange” 2.1&2.3, Section 2, “Regulation on	None	None	-

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	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		Corporate Bonds Listed on Shenzhen Stock Exchange" Article 1&Article 2, "Notice on Adjusting Clearing of Corporate Bonds" by China Securities Depository and Clearing Co, Ltd.			
European Commission	N/A	Prospectus Directive: Directive 2010/73/EU ⁴⁷ there are no specific references to credit ratings. Delegated Regulation 809/2004 ⁴⁸ (delegated regulation prospectus), references in Annex V, Annex XIII, Annex XX and Annex XXII.	N/A	N/A	N/A
France	N/A	Commission Regulation n° 809/2004 (information contained in prospectuses) Annex V and XIII: Minimum Disclosure Requirements for the Securities Note for debt securities. See EU response French Monetary and Financial Code Regulatory Section Book II/Part I/Chapter III: Negotiable debt securities Article D.213-3 Article D.213-9 Order of 13 February 1992 Decision of the Banque de France's Governor n°2006-03 of 10 August 2006; article 2.3	N/A	N/A	N/A

⁴⁷ Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market

⁴⁸ Commission Regulation 809/2004 (EC) of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements

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Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)		
References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings	
	<p>Art. L.214-44 of the French Monetary and Financial Code (transposing Law no. 2008-556 of 13 June 2008) that applies to certain French securitization schemes (“Organismes de titrisation”). Completed by art. 421-17-8 and 421-8 of the general regulation of the AMF</p> <p>NYSE Euronext Paris rules Article P 1.1.8. (under art 511-1 et seq. of the general regulation of the AMF these market rules are approved by the AMF). And NYSE Alternext Paris rules article 4.5 Listing of bonds via public offer. (Under art 521-1 et seq. of the general regulation of the AMF these market rules are reviewed by the AMF).</p>				
Germany	<p>In general there is no reference to ratings in German law.</p>	<p>In the area of the securities prospectus law there are references to ratings at the European level: EU Prospectus Regulation No. (EC) 809/2004 In particular: - Article 8, Annex V No. 7.5 of EU Prospectus Regulation No. (EC) 809/2004; - Article 16, Annex XIII No. 7.5 of EU <i>Prospectus Regulation No. (EC) 809/2004</i>;</p> <p>In all cases where a rating is included in the prospectus whether voluntarily or pursuant to Article 8 or Article 16 of EU Prospectus Regulation No. (EC) 809/2004 a statement in accordance with the second subparagraph of Article 4 (1) of Regulation (EC) No. 1060/2009 on credit agencies must be included in</p>	<p>The minimum disclosure requirements which must be included in the prospectuses are set out in detail in the EU Prospectus Regulation No. (EC) 809/2004. Therefore decisions with regard to alternative standards of assessment for the purpose of replacing references to ratings in EU prospectus law must be taken by European authorities.</p>	<p>The scope of examination in the securities prospectus law is limited to a formal examination. The prospectuses must contain the information items required in Annex I to XVII and Annexes XX to XXX of EU Prospectus Regulation No. (EC) 809/2004 depending on the type of issuer and securities involved. In addition, the prospectuses must be consistent and comprehensible. No checks are performed with respect to either the credit rating or the accuracy of the content of the prospectuses.</p>	N/A

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	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
		the prospectuses. - Second subparagraph of Article 4 (1) of Regulation (EC) No. 1060/2009:			
Hong Kong	None	Code on Unlisted Structured Investment Products (“SIP Code”) App. A para. 1(b)(ii) SIP Code – Ch. 5.13 (c) SIP Code – App. C para. 25 and App. D para. 23 Chapter 15A.13(1) of the Hong Kong Stock Exchange Listing Rules	N/A	N/A	N/A
India	None	Equity/Convertible Debt SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 Regulation 20(1)(a) Regulation 21(1)(d) Regulation 26(7) Schedule VIII/XIII read with regulation 57 SEBI (Issue and Listing of Debt Securities) Regulations, 2008 Securitised Debt and Corporate Debt Regulation 4 (2) Regulation 20, Regulation 23 SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008 Regulation 25, Regulation 36 (2) Simplified Listing Agreement for Debt Securities Clause 6	-	Securitized/ Corporate Debt Issuer of debt securities (once listed) need to send to the Exchange for dissemination, a half- yearly communication, counter signed by trustees, containing inter-alia the information regarding asset cover available, debt-equity ratio, previous due date for the payment of interest/principal and whether the same has been paid or not and next due date for the payment of interest/principal. Further, issuer needs to submit the audited financial results on a half-yearly basis to the stock exchanges along with a certificate regarding maintenance of 100% asset cover in respect of listed debt securities, by either a practicing company secretary or a practicing chartered accountant, within 45 days from the end of the half year to the Exchange. Short term NCDs and CPs It is mandatory for eligible entities to obtain rating from SEBI registered CRAs for issuance of short term NCDs and CPs. However, the ratings	-

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				are not the sole criterion employed as in addition to minimum rating for issuance of CPs and short term NCDs, the Reserve Bank has prescribed minimum eligibility criteria in terms of net worth and credit quality of borrowal account with the bank for issuance of such instruments.	
Indonesia	-	-	-	-	-
Italy	Consob Regulation no. 11971/1999 (Consob Regulation on Issuers) Annex 1B, Model 1, no. 12, j.4)	<p>Law no. 130 of April 30, 1999⁴⁹ (Law on securitisation of credits) Article 2 paragraph 4</p> <p>Legislative Decree no. 58/1998 Article 100bis paragraph 4</p> <p>Commission Regulation no. 809/2004/EC of April 29, 2004, as subsequently amended, directly applicable in Member States. Annex V point no. 7.5 and Annex XIII point 7.5 (See response from the European Commission).</p> <p>Consob Regulation no. 11971/1999 (Consob Regulation on Issuers) Annex 1B, Model 3, Part II, let. B), no. 4, let. t) [units of Italian closed-end real estate funds]</p> <p>Consob Regulation no. 11971/1999 (Consob Regulation on Issuers) Annex II, Table 8 [financial instruments issued in relation to a credit securitisation transactions]</p>	<p>See the responses from the EC in the General Section concerning the provisions to reduce sole or mechanistic reliance on credit ratings included in the CRA III Regulation and in the Directive amending the UCITS and AIFM Directives.</p> <p>Consob is contributing to the work conducted by ESMA in accordance with the CRA III Regulation relating to the review of references to credit ratings that may have the potential to trigger mechanistic reliance by market participants and the identification of possible suitable alternative standards of assessment that may be used within the EU.</p> <p>As far as asset managers are concerned, Consob requires them to perform due diligence before investing and they cannot, therefore, indicate that they only rely upon external ratings.</p>	<p>See also the responses from the EC to question 1 under Principle II in the General Section.</p> <p>Supervision of the financial institutions' credit assessment processes is carried out through off-monitoring and on-site inspections. Consob requires asset management companies and other intermediaries performing asset management services on a discretionary basis to implement an appropriate, documented and regularly updated due diligence process before investing (maintaining the relevant policies and documents at disposal of the supervisory authority), according to the investment strategy, the objectives and risk profile of the fund, and to ensure an adequate risk management and AIFM to perform high standard of diligence in the selection and ongoing monitoring of investments. Therefore they are not allowed to rely solely or mechanistically on CRAs ratings.</p> <p>As far as public offer or listing</p>	-

⁴⁹ Available on Consob's website: <http://www.consob.it/main/documenti/Regolamentazione/normativa/leg130.htm?hkeywords=&docid=2&page=0&hits=7>.

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				prospectuses are concerned, as provided for in the relevant European legislation, ratings, if available, should be included in the prospectus. Ratings, however, are to be treated as other pieces of relevant information by the investors. See also response under Principle III below.	
Japan	Cabinet Office ordinance concerning the disclosure of the specifics of companies, etc. (April and October 2010) Cabinet Office ordinance concerning financial instruments business, etc. (January 2011) Article 47 of the Ordinance for Enforcement of the Act on Securitization of Assets (January 2011)	A new provision was introduced that requires issuers to disclose information such as the specifics, assumptions and limitations of credit ratings on their securities when they obtain credit ratings. No more references remained.	-	The FSA and the SESC inspect and supervise whether Type I Financial Instruments Business Operators (FIBOs) perform proper assessment of underwriting of securities considering an issuer's fiscal situation and business result and properly implement the assessment.	The FSA supervises Type I FIBOs management systems for the underwriting of securities. In particular it monitors the establishment of appropriate arrangements and procedures to conduct due diligence, to prevent possible conflicts of interests and verify the calculation of prices and a control environment.
Korea	N/A	Paragraph 2 of article 11 of Regulation on Securities Acquisition Business and etc.	N/A	N/A	N/A
Mexico	Issuers Rules. Structured notes and equity securities are no longer required to be rated. Annexes H and N.	Issuers Rules. Annex H and N. Information to be disclosed in the prospectus must contain: a) Credit rating given by a CRA, as well as a brief explanation of its meaning and any considerations for it. b) In case of debt securities issued by trusts, disclose the copy of the document issued by a CRA which includes the rating. It should be accompanied by a document containing the legal independent opinion regarding the instrument.	N.A.	In respect of securities issuances, as well as for other products, intermediaries are obliged to conduct an own analysis that includes a minimum range of factors to be taken into account, such as for instance the investment needs, the risk associated, additional elements to any credit rating assigned in order to determine credit risk, etc.: See Investment Services Rules, Article 4. In addition, in the case of ABS securities, derivatives, structured notes, and other complex products, the know your product assessment must include additional factors.	N.A.
Netherlands	-	-	-	-	-

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Russia	<p>Federal Law N 39-FZ of 22.04.1996 on securities market, section 27.5-4, subsections 2 and 3 (sections in force until 02.01.2013).</p> <p>Order of FFMS N 10-71/pz-n of 23.11.2010 on approval of the level of credit rating of accredited CRAs for the purposes of not applying restrictions of subsection 2 of section 27.5-4 of the Federal Law on securities market to companies or their bonds whose credit rating is not lower than designated.</p>	<p>There are no other references for ratings in the Federal Law N39-FZ of 22.04.1996 on securities market.</p> <p>However, Order of FFMS of Russia N 11-46/pz-n of 04.10.2011 on approval of regulation of disclosures by securities issuers, establishes that if the issuer (issue) has credit rating it should be disclosed in any case (does not depend on the level of rating). There is no mechanistic reliance since the level of rating does not influence the volume of disclosed information.</p>	CRA rating are not used	Have not been developed. FFMS of Russia believes that currently investors independent decisions are not hampered by the availability of credit rating of an issuer.	Please see response in previous column.
Saudi Arabia	None	None	There is no reference to CRA ratings in laws and regulations pertaining to securities issuance.	N/A	N/A. There is no reference to CRA ratings in laws and regulations pertaining to securities issuance and there are no requirements for firm to use internal ratings.
Singapore	N/A	7th to 10th and 16th Schedules of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005	N/A	<p>Regulations and policies are geared towards promoting more effective disclosure. A number of enhancements have been introduced, including:</p> <ul style="list-style-type: none"> - requiring issuers of unlisted investment products to provide investors with a Product Highlights Sheet ("PHS") disclosing key information about an investment product; -requiring issuers of unlisted investment products to provide timely and meaningful ongoing disclosures to investors., making available semi-annual and annual reports to investors, as well as ongoing disclosure of changes that may materially affect the price and value of the product; - requiring, in the case of an offer of ABS, disclosure of any form of due diligence (including any review, 	N/A

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	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
				verification, or assessment) in respect of underlying assets that have been performed by the issuer, sponsor, originator, underwriter or any third party.	
South Africa	<p>Johannesburg Stock Exchange (JSE) Listings Requirements Specialist Securities</p> <ul style="list-style-type: none"> - 19.13(a)(vii) - 19.31 - 19.32 - 19.36(b)(ii)(1) - 19.36(b)(iii)(2) - 19.39(d)(ix) <p>The abovementioned paragraphs pertinent to Section 19 of the JSE Listings Requirements are in the process of being amended, to remove references to credit ratings.</p>	<p>JSE Debt Listings Requirements sections:</p> <ul style="list-style-type: none"> - 4.17(b) - 4.21(w) - 4.21(aa) - 4.25 - 6.5 <p>The Debt Listings Requirements provide for disclosure of credit ratings in the event that one has been obtained and therefore do not require amendments.</p>	N/A	<ul style="list-style-type: none"> - The JSE ensures (as a general principle) that sufficient and transparent disclosure to investors is made, in order for them to make their investment decisions. - No requirements are imposed directly on the investor to conduct due diligence and their own independent credit judgements in making investment decisions though. - No requirements are imposed directly on the investor to conduct risk analysis commensurate with the complexity and other characteristics of investment and materiality of their exposure. - In the debt market, the issuer does however disclose a risk statement to investors, which includes the various forms of risks faced by an investor should they invest in that particular instrument. 	The JSE ensures (as a general principle) that sufficient and transparent disclosure to investors is made, in order for them to make their investment decisions.
Spain	-	<p>Law 19/1992, of 7th of July, on securitization (Spanish law), article 5.</p> <p>Circular 4/2009, of 4 November 2009, of the CNMV, on the communication to the market of inside information.</p>	In case of rating requirements, no alternative to the rating has been developed, as no decision has been made yet as to whether the reference to a rating should be removed. One of the elements to be considered in the decision making process will be precisely whether such an alternative can be found and to what extent the decision to rate the instrument can be left to the market demand.	The CNMV does not check the adequacy of an issuer's own credit assessment processes in respect of securities issuance. The CNMV only checks that the comprehensive disclosures required by the regulation regarding the financial position of the issuer are included in the prospectus, so investors can decide by themselves whether the proposed investment suits their yield and risk strategies.	-
Switzerland	SIX Exchange Regulation (self-regulator of the Swiss Securities Exchange) makes no reference to CRA ratings in its regulation	SIX makes no reference to CRA ratings in its regulation	Audited financial reports, non-audited half year financial reports, corporate governance disclosure and on-going disclosure requirements.	In respect to market participants the competence of SIX Exchange Regulation is limited to issuers and brokers and dealers. SIX is not aware,	N/A

	Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
				that the issuers own credit assessment process in respect of their securities issuance is of any importance to other market participants. SIX Exchange Regulation never promoted CRA ratings as a regulatory tool.	
Turkey	-	-	-	-	-
United Kingdom	N/A	Item 7.5 of Annexes V & XIII of the European Commission Regulation 809/2004 The Disclosure and Transparency Rules (DTR 2.2 & 2.5)	N/A	N/A	N/A
USA	Rule 134 (17 CFR 230.134) Rule 138 (17 CFR 230.138) Rule 139 (17 CFR 230.139) Rule 168 (17 CFR 230.168) Form S-3 (17 CFR 239.13) Form S-4 (17 CFR 239.25) Form F-3 (17 CFR 239.33) Form F-4 (17 CFR 239.34) Form F-9 (17 CFR 239.39) <u>Proposed</u> General Instruction I.B.5. to Form S-3 (17 CFR 239.13) Items 1112 and 1114 of Regulation AB (17 CFR 229.1112 and .1114)	N/A	The U.S. Securities and Exchange Commission (SEC) adopted rule and form amendments in light of Section 939A of the Dodd-Frank Act to eliminate references to credit ratings in its rules and forms in order to reduce reliance on credit ratings. The amendments replaced certain requirements of several rules and forms under the Securities Act of 1933 and the Securities Exchange Act of 1934 that employed credit ratings with alternative requirements that do not rely on ratings (generally based on an issuer's outstanding capitalization or status), as more fully described in the adopting release. ⁵⁰ The SEC has also proposed replacing ratings requirements for ABS shelf eligibility with an executive officer certification concerning the disclosure contained in the offering prospectus	N/A	N/A

⁵⁰ See Security Ratings, Release Nos. 33-9245, 34-64975 (Jul. 27, 2011), 76 FR 46603 (Aug. 3, 2011).

Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt					
Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)		
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
			and the design of the securitization, as well as certain transactional requirements, as more fully described in the proposing releases. ⁵¹		

⁵¹ See Asset-Backed Securities, Release Nos. 33-9117, 34-61858 (Apr. 7, 2010), 75 FR 23328 (May 3, 2010) and Re-Proposal of Shelf Eligibility Conditions for Asset-Backed Securities, Release Nos. 33-9244, 34-64968 (Jul. 26, 2011), 76 FR 47948 (Aug. 5, 2011).

Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt			
Application of the basic principles to particular financial market activities (Principle III)			
III.5 Disclosures by issuers of securities (Principle III.5a)			
	Description of the role played by CRA ratings in disclosures by issuers of debt and equity securities (whether public issuance or private placement).	Role played by supervisors in reviewing in reviewing the role played by credit ratings in disclosures by issuers of securities	Examples, if possible, of measures taken to reduce the role of credit ratings in disclosures by issuers of securities.
Argentina	It is not mandatory. However, when an issuer rates the security, the prospectus must inform the rating issuer identification, the rating itself and its interpretation.	Ratings are not a requisite for public offering.	N/A
Australia	CRA ratings are not used in offers of debt and equity securities to retail investors, but continue to be used in offers restricted to wholesale investors. While there is no express ban on the use of CRA ratings for offers to retail investors, the major international CRAs do not hold the required Australian Financial Service license authorisation to provide ratings to retail investors.	ASIC Corporations team reviews fundraising disclosure documents to ensure offers of debt and equity securities to retail investors do not contain references to CRA ratings.	In October 2011, ASIC took action against an issuer in relation to a security which had a CRA rating-sensitive feature (interest deferral triggered upon rating downgrade). As a consequence, both the disclosure and the terms of the security were amended to remove references to CRA ratings.
Brazil	CRA ratings should rate the credits of ABS or the Receivables Investment Funds before it was traded.	Supervisor analyses if the CRA ratings were disclosed by the intermediaries and the securities issuers, when the securities are traded, and if the CRA rating were based on reliable information. Indeed, every public offering in Brazil must be registered with the Securities Commission, which analyses a series of documents, including the CRA rating. Moreover, the issuers must file, at least annually, forms which contain these documents. Every public rating issued by a CRA must be disclosed in the CRA website, even if the CRA has done the rating but was not contracted, in order to prevent rating shopping. In case of breaches, CVM members or market participants can do a formal complaint in the Commission and CVM can take different kinds of action, such as to stop the negotiation of these securities in order to investigate irregularities, or begin an administrative procedure against the CRA.	This cannot be measured due to the short period of time elapsed since of the new CRA rule.
Canada	Canada adopted NI 25-101 and other CSA initiatives regarding the regulation of securitized products in order to provide market participants with greater confidence in the process used to generate ratings and to ensure that the designated rating organization has appropriate policies and procedures in place to preserve the integrity of the ratings, as well as enhance greater transparency as the details of issued ratings and the potential for conflicts of interest.	In accordance with the Securities Act (Ontario), the Commission may not direct or regulate the content of credit ratings or methodologies used to determine credit ratings. Credit rating organizations that wish to have their credit ratings eligible for use in securities legislation must apply to the appropriate Securities Regulator to be considered as a “designated rating organization” (DRO), whose regulatory requirements are set out in NI 25-101. The OSC is responsible for the ongoing oversight of DROs and their compliance with NI 25-101, and have the legal authority to perform compliance reviews, including reviewing the books, records and documents of DROs. We use a risk-based approach in identifying issues for review and will focus on issues and areas where non-compliance is probable or where we foresee a need for increased compliance.	None noted at this time.
China	According to “Public Issue of Corporate Bonds Offering Statement”, the issuers should disclose the rating agency being engaged, the rating information of corresponding bonds, and other major items of rating report. External credit rating doesn’t need to be disclosed. CRA ratings are important references of bond pricing.	Monitoring the rating basis of rating agencies, “Trial Method on Credit Rating on Security Market”, to promote regulated development of credit rating on security market, improve efficiency and transparency of security market, and protect legal interest and public interest. PBC require the institutional investor of the Inter-bank Market to enhance their ability to identify credit risks, in order to reduce the reliance on CRA	There is no compulsive requirement in “Pilot Program Method on Private Placement Bond of Medium-sized and Small Enterprises” of the Shanghai and Shenzhen Stock Exchanges, the issuers and investors could independently negotiate about if rating should be engaged, and disclose relevant information in the statement.

Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt			
Application of the basic principles to particular financial market activities (Principle III)			
III.5 Disclosures by issuers of securities (Principle III.5a)			
	Description of the role played by CRA ratings in disclosures by issuers of debt and equity securities (whether public issuance or private placement).	Role played by supervisors in reviewing the role played by credit ratings in disclosures by issuers of securities	Examples, if possible, of measures taken to reduce the role of credit ratings in disclosures by issuers of securities.
	Some institutions set investment threshold based on CRA ratings. For instance, a trader may be required not to hold a bond with the CRA rating under AA. Require CRA ratings to be a compulsory element of bond issuance.	ratings.	Under the direction of PBC, NAFMII released the CRA ratings requirement of some debt financing tools. For example, “Rules on Non-public Directional Issuing of Debt Financial Instruments of Non-financial Enterprises in the Inter-bank Bond Market”, implemented since Apr. 2011, did not stipulate CRA ratings as a compulsory element for registration of Non-public directional issued Debt Financial Instruments of Non-financial Enterprises. Investors could request a CRA rating, according to their needs, in the Directional Issuing Agreement signed with issuers.
European Commission	Credit ratings are one element among other factors disclosed where available by issuers when issuing debt instruments.	N/A	N/A
France	In case of a public issuance or private placement CRA ratings represent a form of guarantee for investors. Therefore, rated offers tend to be more successful than unrated ones. However, due to the absence of binding regulation, the cost of ratings and the difficulties for smaller companies to receive a high rate, CRA ratings are not always requested by issuers. See also Regulation n°809-2004 mentioned above for public issuance, which requires issuers to publish any rating assigned to them or their debt securities and creates therefore an incentive for issuers to request for a rating in order to appear as good/compliant as any other issuer.	The Banque de France is in charge of implementing the rules (Laws, Decrets, and Decision) that drive the short term commercial paper market in France (TCN).	The French Social Security debt agency, CADES, for instance, decided in early 2012 not to publish the short term rating of its programme in its information memorandum, as it is eligible to one of the exemption under the regulations governing marketable debt instruments (Article D. 213-3 of the French Monetary and Financial Code).
Germany	CRA ratings are only one of the information among others in the prospectus. The inclusion of a rating in the prospectus is only necessary for debt securities, if a rating has been assigned due to the request or with the co-operation of the issuer in the rating process (Annex V No. 7.5 and Annex XIII No. 7.5 EU Prospectus Regulation 809/2004) A corresponding obligation does not apply to shares and derivative securities. However, issuers always have the possibility to include ratings in the prospectus on a voluntary basis. If a rating is included in a prospectus it must always be explained for comprehensibility reasons. Furthermore, in all cases where a rating is included in the prospectus whether voluntarily or pursuant to Article 8 or Article 16 of EU Prospectus Regulation No. (EC) 809/2004 a statement in accordance with the second subparagraph of Article 4 (1) of Regulation (EC) No. 1060/2009 on credit agencies must be included in the prospectuses. Thus, the issuer must ensure	Compliance with the ratings requirements mentioned in previous column is checked by the Federal Financial Supervisory Authority (BaFin). BaFin does not supervise the content of the rating.	It is not possible to omit or replace the rating in the prospectus if the disclosure of the rating is necessary in accordance with the EU Prospectus Regulation 809/2004. Due to the fact that the EU Prospectus Regulation is European law, measures to reduce the role of ratings must be taken at European level.

Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt			
Application of the basic principles to particular financial market activities (Principle III)			
III.5 Disclosures by issuers of securities (Principle III.5a)			
	Description of the role played by CRA ratings in disclosures by issuers of debt and equity securities (whether public issuance or private placement).	Role played by supervisors in reviewing the role played by credit ratings in disclosures by issuers of securities	Examples, if possible, of measures taken to reduce the role of credit ratings in disclosures by issuers of securities.
	that the prospectus includes clear and prominent information stating whether or not the credit rating is issued by a credit rating agency established in the Community and registered under the Regulation (EC) No. 1060/2009.		
HongKong	<p>Pursuant to the SIP Code, credit rating is required to be disclosed in offering documents and advertisements for an unlisted structured investment product only if the issuer/guarantor relies on its credit rating so as to meet the eligibility requirements or where the product is collateralised. Where a credit rating is disclosed in an offering document/ advertisement, it shall be accompanied by some information on the source of the credit rating; the meaning of the credit rating and an appropriate warning to the effect that the credit rating (i) is not a recommendation, (ii) is not necessarily an indication of liquidity or volatility, and (iii) may be downgraded if the credit quality of the relevant entity or asset or obligation declines.</p> <p>A disclosure requirement is provided in the listing documents for listed structured products in relation to the credit rating of the issuer/guarantor and for non-collateralised listed structured products with reference to the fact that investors are relying on an issuers' credit worthiness when investing in a particular issuer's structured products. There are no requirements to disclose an issuer's credit rating in respect of public offerings of shares and debt securities.</p>	<p>All offering documents and advertisements for SIP are reviewed and authorised by the SFC pursuant to the Securities and Futures Ordinance. Issuers are required to fulfil all applicable disclosure requirements under the SIP Code, including any disclosure relating to credit ratings as mentioned above.</p> <p>All listing documents for non-collateralised listed structured products are reviewed and authorised by the Hong Kong Stock Exchange, including any disclosure relating to credit ratings as mentioned above.</p>	Please see answer in the first column.
India	<p>Issuers need to get their IPOs graded by CRAs to make additional information available for the investors in order to facilitate their assessment of equity issues offered through an IPO. The IPO grading process is expected to take into account the prospects of the industry in which the company operates, the competitive strengths of the company that would allow it to address the risks inherent in the business and capitalize on the opportunities available, as well as the company's financial position.</p> <p>IPO grading is intended to provide the investor with an informed and objective opinion expressed by a professional rating agency after analysing factors like business and financial prospects, management quality and corporate</p>	The credit rating agencies in India are registered under SEBI (Credit Rating Agencies) Regulations, 1999, according to which they need to comply with the conditions of registration and the code of conduct. However, SEBI does not play any role in the assessment made by the grading agency. The grading is intended to be an independent and unbiased opinion of that agency. SEBI does not pass any judgment on the quality of the issuer company. SEBI's observations on the IPO document are entirely independent of the IPO grading process or the grades received by the company.	-

Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt			
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III.5 Disclosures by issuers of securities (Principle III.5a)			
	Description of the role played by CRA ratings in disclosures by issuers of debt and equity securities (whether public issuance or private placement).	Role played by supervisors in reviewing in reviewing the role played by credit ratings in disclosures by issuers of securities	Examples, if possible, of measures taken to reduce the role of credit ratings in disclosures by issuers of securities.
	governance practices, etc. However, irrespective of the grade obtained by the issuer, the investor needs to make his/her own independent decision regarding investing in any issue after studying the contents of the prospectus including risk factors carefully.		
Indonesia	-	-	-
Italy	As stated in the response from the European Commission, the rating, if any, is only one of the information to be provided in the prospectus for public offering or admission to trading of debt securities and Italian closed-end real estate funds. According to the CRA Regulation (Article 4), where a reference to a rating is included in the prospectus, there must be a clear and prominent information stating whether or not such credit ratings are issued by a credit rating agency established in the Community and registered under the CRA Regulation. Investors are required to make their own assessment on the basis of the complete prospectus to decide whether or not to invest in the financial product concerned according to European and the implementing national law.	See response from the European Commission.	Consob modified the prospectus model for units or shares of non-harmonised (Italian or foreign) open-ended funds to eliminate the requirement to include, within the specific risks of the fund/subfund, information on (i) the minimum rating of the debt instruments in the portfolio, or, for those funds aimed at reproducing benchmarks passively, (ii) the percentage of investments in debt instruments with a rating lower than investment grade (Consob Regulation on Issuers, Annex 1B, Model 1, no. 12, j.4). Moreover, Consob modified the Regulation on Intermediaries on May 2012 to require asset management companies and SICAV to perform due diligence before investing as described below. They cannot, therefore, indicate that they only rely upon external ratings. See also the due diligence requirements for AIFM in Regulation no. 231/2013/EU described above, directly applicable in Member States.
Japan	Credit ratings are only one of the information to be provided as reference information for investment, taking into account their assumptions and limitations. When issuers obtain credit ratings from registered CRAs (note: The registered CRAs system was introduced in 2010), the issuers are required to disclose such ratings and following items in a space out of columns of their Securities Registration Statement: an explanation of the specifics, assumptions and limitations of all assigning credit ratings on the securities and the method of obtaining information published by rating agencies based on policies for assigning ratings (URL, etc.)	The use of ratings in disclosures by securities issuers is not directly assessed by supervisors	The FSA revised related ordinances etc. of disclosures by issuers of securities, as below; -Added the provision requiring issuers to enter in Offering Disclosure Documents information on the obtained ratings, assumptions and limitations of the ratings, and so on. -Deleted the following requirement for eligibility to use the bonds issuance registration system: acquisition of single-A or higher ratings from two different designated rating agencies from the requirements (See the answer to 1.3 of Annex I: Securities Issuance)
Korea	Enhance investor protection by disclosing credit rating information on securities certificate when issuing unsecured bonds.	N/A	N/A
Mexico	In public issuances, for debt securities, including asset-backed securities, a rating is required. See Issuers Rules, Annex H.	The CNBV has a specific division for the supervision of credit rating agencies that is responsible for conducting the annual on-site inspection visits to CRAs. In addition, this division carries out special inspection visits when a particular supervisory concern arises. In regards to CNBV's daily surveillance of CRAs, credit ratings issued in press releases, as well as	In the case of banks and brokerage houses, it is expected that after the publication of the investment services rules (April 2013), supervisors initiate to oversee that the know your product assessments comply with such rules.

Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt			
Application of the basic principles to particular financial market activities (Principle III)			
III.5 Disclosures by issuers of securities (Principle III.5a)			
	Description of the role played by CRA ratings in disclosures by issuers of debt and equity securities (whether public issuance or private placement).	Role played by supervisors in reviewing the role played by credit ratings in disclosures by issuers of securities	Examples, if possible, of measures taken to reduce the role of credit ratings in disclosures by issuers of securities.
		events that are of concern of the supervisory team are monitored. The rating assignment is closely reviewed in terms of the behaviour shown by the rated securities.	
Netherlands	-	-	-
Russia	The scope and content of information to be disclosed by the issuer in the listing prospectus, the issuer's quarterly reports and statements of material facts do not depend on whether the issuer was assigned credit rating or not (<i>Order of FFMS of Russia N 11-46/pz-n of 04.10.2011</i> "On approval of Regulation of disclosures by securities issuers"). The level of assigned ratings (if any) are to be disclosed by the securities issuers.	Not applicable due to the reason mentioned in the first column.	Not applicable due to reason mentioned in the first column.
Saudi Arabia	None. All securities issuance in SA do not require ratings.	N/A.	N/A.
Singapore	Where a debenture issuer (or its guarantor) or debenture issue has been given a credit rating by a credit rating agency, the rating would have to be disclosed in the prospectus. CRA ratings are only one aspect of a broader set of information disclosed in the prospectus to empower investors to make informed investment decisions.	An issuer that intends to make an offer of securities must lodge a prospectus with MAS. MAS reviews the lodged prospectus for compliance with the statutory disclosure requirements. MAS also checks that, where a credit rating is disclosed, the prospectus contains adequate information to enable investors to understand the meaning, function and limitations of credit ratings.	MAS has introduced measures to promote more effective disclosure and to equip investors to make informed investment decisions, having regard to a broad range of considerations rather than rely on individual yardsticks such as credit ratings.
South Africa	See responses to questions under Principle II.	None. The Credit Rating Services Act, 2012 will enable this review. Supervisors will have no influence neither they will interfere with a credit rating issued by a CRA. The Act and subordinate legislation have extensive requirements for the presentation and disclosure of credit ratings.	See previous column.
Spain	Credit ratings are one element among other factors disclosed where available by issuers when issuing debt instruments.	The only connection between credit ratings and issuers disclosures is the fact that issuers have to disclose in their debt prospectuses any rating assigned to the debt instrument which is the subject of the prospectus (provided that such rating/s was requested by the issuer). In addition, the issuer has to disclose whether the rating agency has been registered in the European Union in accordance with the European Regulation 1060/2009 on credit rating agencies. Credit rating agencies do not play any role in the rest of disclosures included in the prospectuses. The CNMV does not supervise the content of the rating disclosed in the prospectus.	Credit ratings do not play any role in issuer's disclosures, apart from the fact that the rating itself has to be disclosed by the issuer. The requirement is imposed by European Regulation on prospectuses; therefore its review does not depend exclusively on the Spanish authorities. As indicated above, the European authorities have set a calendar for the review of any reference to ratings in legislation that could lead to mechanistic reliance on credit ratings.
Switzerland	No legal requirement for issuers to obtain CRA ratings, as they are by SIX Exchange Regulation considered to be marketing tools and not regulatory disclosures. Nevertheless, if CRA ratings are considered to be potentially price sensitive, then the specific disclosure requirements for ad hoc disclosure apply to the issuer.	If CRA ratings are considered to be potentially price sensitive, then the disclosure requirements for ad hoc disclosure apply to the issuer. As not all CRA ratings are ordered by the issuer, unsolicited ratings may pose a problem for the issuer and SIX Exchange Regulation, which has no legal authority over the CRA.	Listing and disclosure rules do not contain any requirements for issuers to obtain CRA ratings. If CRA ratings are considered to be potentially price sensitive, then the disclosure requirements for ad hoc disclosure apply.
Turkey	-	-	-
United Kingdom	Certain of the debt security annexes prescribed within the Prospectus Directive Regulations oblige issuers to disclose	There is no regulatory requirement by UK Authorities that issuers of securities should seek to obtain credit ratings for each issuance, and the use	N/A

Annex C5: Securities Issuance (debt and equity, whether public issuance or private placement), including asset-backed securities and corporate debt			
Application of the basic principles to particular financial market activities (Principle III)			
III.5 Disclosures by issuers of securities (Principle III.5a)			
	Description of the role played by CRA ratings in disclosures by issuers of debt and equity securities (whether public issuance or private placement).	Role played by supervisors in reviewing the role played by credit ratings in disclosures by issuers of securities	Examples, if possible, of measures taken to reduce the role of credit ratings in disclosures by issuers of securities.
	<p>credit ratings assigned to the issuer/its debt securities within any prospectus produced.</p> <p>Credit Rating Agency Regulations stipulate the requirements for disclosing the registered status of the credit rating agency.</p> <p>These points relate to securities to be either admitted to a regulated market, or to be offered to the public, in a Member State. Unable to comment upon practice for private placements.</p>	<p>of ratings in disclosures by securities issuers is not directly assessed.</p> <p>The UK Listing Authority (part of the UK Financial Conduct Authority) reviews prospectuses to verify that, where applicable, credit ratings assigned to the relevant issuer/debt security have been disclosed in line with the requirements described above.</p>	
USA	<p>In 2011, the SEC adopted an amendment to Rule 134 under the Securities Act in order to reduce reliance on credit ratings by investors. Rule 134(a)(17) permitted the disclosure of security ratings issued or expected to be issued by NRSROs in certain communications deemed not to be a prospectus or free writing prospectus. Communications made under Rule 134 generally appear in “tombstone” ads or press releases announcing offerings. A communication is eligible for the safe harbour if the information included is limited to such matters as, among others, factual information about the identity and business address of the issuer, title of the security and amount being offered, the price or a bona fide estimate of the price or price range, the names of the underwriters participating in the offering and the name of the exchange where such securities are to be listed and the proposed ticker symbols⁵².</p> <p>Rules for registered ABS offerings require prospectus disclosure of a rating if the sale of any class of offered securities is conditioned on the assignment of a rating by one or more rating agencies.</p>	<p>In no-action letters dated July 22, 2010 and November 23, 2010, SEC staff stated that it will not recommend enforcement action to the Commission if an ABS issuer chooses to omit the ratings disclosure required by these rules from a prospectus relating to an offering of ABS</p>	<p>See first column. However, a credit rating could be material factual information for an investor in making an investment decision, and disclosure of ratings may therefore be appropriate. The focus of our review, therefore, has been on regulations that use credit ratings as a standard of creditworthiness rather than rules that require disclosure about credit ratings.</p>

⁵² See Security Ratings, Release Nos. 33-9245, 34-64975, (Jul. 27, 2011), 76 FR 46603 (Aug. 3, 2011).

	Annex C6: Securities Firms (broker-dealers)				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
Argentina	CRA ratings are not required as no references to CRA ratings have been left in laws and regulations issued by the CNV. Securities firms operate on an agency basis.	N/A	Securities firms operate on an agency basis. Brokers do not assume risks.	N/A	N/A
Australia	None.	ASIC Market Integrity Rules (MIRs) (ASX Market) 2010 Definitions section Rule 1.4.3, Rule 3.5.3 and Schedule 1A 1.1 to MIRs.	None. Due to the rules being minor and not currently applicable to any market participant regulated by the MIRs.	As part of ASICs ongoing supervision of market participants, regular reviews are undertaken of compliance with the MIRs which would include testing that participants, if applicable, have properly applied the credit ratings obtained from the credit rating agencies in the calculation of the required risk capital they are required to maintain.	No specific procedures.
Brazil	N/A. No regulation regarding Securities Firms (broker-dealers) which require or mention CRAs ratings.	N/A	N/A	N/A	N/A
Canada	None noted	<p>National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations</p> <p>Section 8.21 "Specified debt"</p> <p>Schedule 1 of Form 31-103F1 Calculation of Excess Working Capital (calculating line 9 [market risk])</p> <p>Form 33-109F6 Firm Registration</p>	<p>At this time, the CSA has not taken any actions specifically directed at developing alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations.</p> <p>National Instrument Registration Requirements, Exemptions and Ongoing Registration Obligations (NI 31-103), applicable to registered firms, including firms that are registered as a dealer, portfolio manager or investment fund manager, requires registered firms to establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with their business in accordance with prudent business practices.</p>	<p>As part of the compliance oversight process, OSC staff conducts compliance field reviews to assess registrants' compliance with securities laws and to test their systems of internal controls and processes.</p> <p>Registrants are required to take reasonable steps to ensure that a proposed trade is suitable for a client before making a recommendation or accepting instructions from the client. This is often referred to as the "know your product" obligation.</p>	Section 13.4 of NI 31-103 requires a registered firm to take reasonable steps to identify and respond to material conflicts of interest (existing or potential), between the firm, including each individual acting on the firm's behalf, and a client. In general, registrants can respond to conflicts of interest either by avoidance, control and disclosure. During the course of compliance reviews, OSC staff will look at a registrant's process for identifying and responding to conflicts of interest, which conflicts may create an upward bias in a firm's internal ratings or otherwise influence the selection of securities for investment decision making.
China	-	-	-	-	-

	Annex C6: Securities Firms (broker-dealers)				
	Reducing reliance on CRA ratings in laws and regulations (Principle I)			Reducing market reliance on CRA ratings (Principle II)	
	References in laws and regulations that have been removed or proposed to be removed	References identified but not removed or proposed to be removed	Alternative standards of assessment for the purpose of replacing references to CRA ratings in laws and regulations	Supervisory processes and procedures used to check the adequacy of market participants' own credit assessment processes	Specific procedures that have been adopted to guard against upward biases in firms' internal ratings
European Commission	N/A	Markets in Financial Instruments Directive (MIFID, Directive 2004/39/EC) does not contain any references to credit ratings MIFID implementing directive ⁵³ contains reference to credit ratings in article 18 (1).	N/A	Non relevant where securities firms are providing investment services. Where securities firms are issuing securities, please refer to general provisions applicable in case of issuance of securities.	N/A
France	-	-	-	-	-
Germany	None	None	None	According to the rules of conduct of the German Securities Trading Act, investment firms need to provide their services in the best interest of their clients. They may only recommend products to their clients and/or buy or sell products for their asset management clients which are suitable for them. In this regard firms need to consider the creditworthiness of issuers. Compliance with the rules of conduct is subject to a yearly audit.	This potential problem is addressed by the generally applicable rules on avoiding and reducing conflicts of interests within securities firms (EU MiFID).
Hong Kong	-	Financial Resources Rules, Schedule 1 Table 4 Recognised Counterparty Rules	Not applicable. In ICG, firms are required to establish and maintain an effective credit rating system to evaluate client and counterparty creditworthiness, where such credit rating should reflect some elements, such as for instance the client's investment objective and history, capital base and the existence and amount of any guarantee, and any known event which may have an adverse impact on the client's financial status, potential for default or accuracy of information stored regard the clients.	Supervision includes both onsite and offsite monitoring. Lending practices and internal control reviews are discussed with securities firms which provide financing to clients in assessing the business conduct of the SFC-licensed firms. Likewise, internal credit assessment processes of SFC-licensed investment bank subsidiaries are reviewed during the course of supervision where appropriate.	SFC-licensed firms which lend to clients perform their own assessment on clients' creditworthiness. If the firm books client or counterparty exposure in the SFC-licensed firm, the firm's overall credit control is subject to supervisory review.
India	-	-	-	-	-
Indonesia	-	-	-	-	-

⁵³ Commission Directive 2006/73/EC, implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive

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Italy	-	-	-	Credit transactions carried out by Italian securities firms are very specific since they are connected with investment services activities. Moreover, they are of modest amount in comparison with the total activity. Capital requirements are not based on external ratings. Any portfolio managed by an investment firm on behalf of a client (as specified by the contractual agreement) could be bound by a minimum rating on the invested assets, therefore the downgrading of such investment could force the divestment of the assets.	None
Japan	-	<p>"Provision of eligible <i>external credit rating agencies and eligible External Credit Assessment Institution (ECAI) and equivalent categories to ECAI's ratings.</i>"</p> <p>This provision is for implementing Basel regulation, not for regulating and supervising rating agencies.</p>	There are no alternative standards of CRA rating in law and regulation, but it is checked whether the management of credit risk is conducted in a comprehensive manner, not only by credit ratings but taking into account also other factors.	<p>The FSA supervises whether the Financial Instruments Business Operators (FIBOs) properly manage their counterparty risk, for example, by developing a comprehensive risk management systems, not only taking into account credit ratings but also considering other factors, such as probability of defaults and the estimated amounts of losses caused by them, properly monitoring and evaluating risks, and constructing counter-checking monitoring structure, to ensure appropriate credit risk management.</p> <p>The SESC inspects if FIBOs' (Type I) investment management systems are appropriate- based on the provisions of the Inspection Manual for FIBOs.</p> <p>In addition, ultimate designated parent companies are required to disclose (i) summary of their credit risk management policies and processes, (ii) names of Eligible Credit Rating Institutions, and (iii) exposures to which the Standardised</p>	In case where FIBOs which are engaged in large and complex businesses as a group takes the internal credit rating approach in order to manage credit risks, the SESC inspects the FIBOs whether they have developed a system to verify the suitability of the rating system in the view of the business characteristics and risk profile of the each group company periodically and as needed.

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				Approach is applied.	
Korea	N/A	Detailed Regulation on Financial Investment Business "Attachment 5" - Table 5, 13, 19.	Current laws and regulations do not provide alternative standards to CRA credit ratings.	-	-
Mexico	None	N/A	None	For banks and brokerage houses, the compliance of requirements for know your product (KYP) assessments is supervised. In respect of securities issuances, as well as for other products, intermediaries are obliged to conduct an analysis that includes a minimum range of factors such as the investment need, the objectives and specification, the risk associated, and any evaluation of the assets thereunder. In case of securities that are rated by a CRA, it is required to consider additional elements to that rating in order to determine credit risk. In addition, in the case of ABS securities, derivatives, structured notes, and other complex products, the KYP assessment must include some other elements to be taken into account.	None.
Netherlands	-	-	-	-	-
Russia		Russian securities firms have very light capital adequacy regime (only minimum level in absolute terms). Both banks and broker-dealers use ratings in their risk management, for example in repo operations (assessment of collateral and counterparties).		FFMS has plans to develop and implement the system of prudential supervision of professional market participants in near future within which certain requirements to risk assessment and management systems are to be introduced.	
Saudi Arabia	None	None	This is a work in progress and CMA may look into this in future. Further, the policy proposal for alternative approaches to CRA ratings by BCBS will only be published in mid-2014.	This is not applicable as CMA has not enforced internal credit assessment process by the securities firm. However, such initiative may be undertaken in the future.	Not applicable. There are no requirements for firm to use internal ratings.

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Singapore	None	Notice on Risk Based Capital Adequacy Requirements for Holders of Capital Markets Services Licences (CMSL).	MAS's credit risk management guidelines emphasize the need for financial institutions to conduct comprehensive assessments and monitoring of the creditworthiness of obligors rather than just rely on external credit ratings. An institution should also have a policy to develop, review and implement an internal risk rating system where appropriate. Such a system should be able to assign a credit rating to obligors that accurately reflects the obligor's risk profile and likelihood of loss and should be validated periodically. Institutions' implementation of guidelines is examined during inspections.	MAS adopts a risk-based approach which allow CMSLs to adopt their own risk assessment methodology which commensurate with the nature, scale and complexity of their business. As part of MAS's on-site inspection, MAS assesses the adequacy and effectiveness of CMSLs' credit risk management policies and procedures.	Please see previous column.
South Africa	-	-	None	None	None
Spain	-	See EU response.	-	-	-
Switzerland	Securities firms are regulated as banks so please refer to the answers regarding banks.	Securities firms are regulated as banks so please refer to the answers regarding banks.	Securities firms are regulated as banks so please refer to the answers regarding banks.	Securities firms are regulated as banks so please refer to the answers regarding banks.	Securities firms are regulated as banks so please refer to the answers regarding banks.
Turkey	-	-	-	-	-
United Kingdom	The following aspects of the PRA Handbook contain references to external ratings and will be deleted upon implementation of the CRR: BIPRU 3.2, 3.3, 3.5, 3.6, 4.4, 4.9, 4.10, 5.4, 5.7, 6.5, 7.2, 7.10, 7.11, 9.3, 9.4, 9.5, 9.7, 9.8, 9.9, 9.11, 9.12, 9.14, 11.5, 11.6, 13.5 and 14.4	BIPRU 12.3, 12.5, 12.7 in the PRA Handbook.	None.	The Risk Specialist Division at the PRA undertakes Technical Risk Reviews (TRRs) on our regulated firms in support of supervision. TRRs cover, amongst other things, commercial and business risks, risk management competence, models, stress and scenario testing and it is through these reviews that the PRA checks the adequacy of our firms' credit assessment processes.	The PRA has two key processes in place to identify and address upward biases in securities firms' internal ratings. 1. Approval of new rating systems to be used to calculate regulatory capital (within the IRB approach), or of changes to an existing rating system: the rating systems in question are not approved if it has an unwarranted bias; 2. Periodic reviews of firm's monitoring and validation of their rating systems: adjustments required to any model the performance of which has deteriorated significantly or which exhibits unwarranted bias.

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USA	<p>15 U.S.C. 78c(3)(a)(41)</p> <p>15 U.S.C. 78c(3)(a)(53)(A)</p> <p>17 CFR 240.15c3-1(c)(2)(vi)(E), (F)(1), (F)(2), and (H)</p> <p>17 CFR 240.15c3-1a(b)(1)(i)(C)</p> <p>17 CFR 240.15c3-1e(c)(4)(vi)</p> <p>17 CFR 240.15c3-1f(d)(3)-(4)</p> <p>17 CFR 240.15c3-3a</p> <p>17 CFR 240.10b-10</p> <p>17 CFR 242.101 (Regulation M)</p> <p>17 CFR 242.102 (Regulation M)</p> <p>17 CFR 402.2(e)(1)(v)</p> <p>17 CFR 402.2a, Instructions to Schedules A through E</p> <p>17 CFR 402.2a, Instructions to Schedules A through E</p>	N/A	<p>The SEC has proposed an alternative standard of creditworthiness to be used for purposes of Rule 15c3-1. Under the proposal, a broker-dealer will be permitted to apply lower haircuts for commercial paper, nonconvertible debt, and preferred stock if the security has a "minimal amount of credit risk" as determined by the broker-dealer pursuant to written policies and procedures the broker-dealer establishes, maintains, and enforces to assess creditworthiness. In its proposal, the SEC identified the following factors a broker-dealer could consider when determining whether a security is of minimal credit risk: (1) credit spreads; (2) securities-related research; (3) internal or external credit risk assessments; (4) default statistics; (5) inclusion in an index; (6) priorities and enhancements; (7) price, yield and/or volume; and (8) asset class-specific factors. The list of factors is not intended to be exhaustive nor mutually exclusive and the range and type of specific factors considered by each broker-dealer could vary depending on the particular securities being reviewed.⁵⁴</p>	<p>Broker-dealers that have approval to use internal statistical models for deductions to net capital are supervised according to standards set forth in SEC Rule 15c3-1e and SEC Rule 15c3-4. These broker-dealers compute an internal credit rating for most counterparties. SEC staff regularly reviews senior management reports of credit risk, including internal credit ratings information. In addition, broker-dealers relying specifically upon internal credit ratings in their net capital calculation are subject to review, approval, and on-going assessment by quantitative staff within the SEC. Depending on the scope of an exam, examiners may review a firm's credit analysis process and controls surrounding it. Such a review may involve interviews with firm management and relevant staff and reviews of documents and would typically cover the areas of governance, policies and procedures, data integrity, processes and controls related to the use of credit models used and experience/qualifications of staff.</p>	<p>Broker-dealers relying specifically upon internal credit ratings in their net capital calculation are subject to review, approval, and on-going assessment by quantitative staff within the SEC.</p>

Notes: A dash indicates that the jurisdiction has not provided a response, while N/A indicates that the question is not applicable for that jurisdiction.

⁵⁴ See Removal of Certain References to Credit Ratings under the Securities Exchange Act of 1934, Exchange Act Release No. 34-64352 (Apr. 27, 2011), 76 FR 26550 (May 6, 2011).