



'Ensuring Investor Protection'

SECURITIES AND EXCHANGE COMMISSION

SECURITIES INDUSTRY (CREDIT RATING AGENCIES) GUIDELINES 2021
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SECURITIES INDUSTRY (CREDIT RATING AGENCIES) GUIDELINES 2021

PREAMBLE

In the exercise of the powers conferred on the Securities and Exchange Commission (hereinafter referred to as “the SEC”) by Section 209 of the Securities Industry Act 2016, (Act 929) as amended by the Securities Industry (Amendment) Act, 2021 (Act 1062), these Guidelines are made this 1st day of November 2021.

PART ONE: PRELIMINARY

1. Application

- (1) These Guidelines shall apply to Credit Rating Agencies (CRAs).
- (2) Except as provided in paragraph (3) herein, all provisions in these Guidelines are mandatory for all CRAs.
- (3) Where a foreign company that is licensed as a CRA in another country wishes to issue ratings for Ghanaian securities and/or entities except securities issued by the Government of Ghana, and the SEC is satisfied that:
 - (i) the foreign company has established a branch or subsidiary in Ghana;
 - (ii) the foreign company is subject to external regulation that imposes appropriate standards on the operation of the CRA; and
 - (iii) those standards are followed by the branch or subsidiary in Ghana; and adequately enforced by the home regulator;

the SEC may exempt the CRA from specified provisions in the Securities Industry (Licensing) Guidelines 2020, the Securities Industry (Conduct of Business) Guidelines 2020, and these Credit Rating Agency Guidelines. The SEC may withdraw or vary the exemption where the conditions are not being satisfied and shall give appropriate notice to the CRA.

- (4) Where any doubt arises about the meaning of any provision contained in these Guidelines, and any other Guideline issued by the SEC, the same shall be referred to the SEC and the interpretation provided by the SEC shall be final.

2. Licensing and Registration

- (1) A person shall not operate a CRA in Ghana unless it is registered, licensed or authorised by the SEC.
- (2) An application for a licence as a CRA shall, in addition to the criteria in the Securities Industry (Licensing) Guidelines 2020, satisfy the SEC that:
 - (a) at least half of the directors of the CRA have experience and qualifications relevant to credit rating and analysis or a comprehensive understanding of financial markets; and
 - (b) every member of the Rating Committee has experience and qualifications relevant to credit rating and analysis.

- (3) A person who wishes to apply for registration as a foreign CRA shall confirm to the SEC that:
 - (a) it has given notice to its home regulator of its intention to establish a branch in Ghana; and
 - (b) by conducting rating activities in Ghana it will not violate any laws or regulations to which it is subject to or any relevant requirements imposed by its home regulator. Where the requirements imposed by the home regulator conflicts with the laws of Ghana, the laws of Ghana shall prevail and the CRA shall seek clarification from the SEC if in doubt.
- (4) In considering an application for registration, the Commission may:
 - (a) carry out any enquiries that it considers appropriate;
 - (b) require the applicant for registration, or its representative, to appear before the SEC to answer questions and explain any matter the SEC considers relevant to the application;
 - (c) require the applicant for registration to provide such additional information as the SEC considers appropriate within 30 days of the request; and
 - (d) verify any information furnished by the applicant for registration.
- (5) Any person who is engaged by the CRA to:
 - (a) conduct the analysis necessary to make credit ratings;
 - (b) take decisions about the credit ratings that will be published; or
 - (c) engage with issuers, investors or the public on the subject of credit ratings;shall be required to be registered, or in accordance with Section 109(2) of the Act, be licenced as a representative of a CRA .
- (6) An applicant for a licence as a representative shall, in addition to the criteria in the Securities Industry (Licensing) Guidelines 2020, satisfy the SEC that he or she has relevant experience in credit rating and analysis. The applicant may be required to complete a course approved by the SEC.

3. Corporate Governance

- (1) In addition to the requirements in Paragraph 6 of the Securities Industry (Conduct of Business) Guidelines 2020, at least two thirds of the directors shall be ordinarily resident in Ghana.
- (2) In addition to the requirements in Paragraph 9 of the Securities Industry (Conduct of Business) Guidelines 2020, a CRA shall have a Ratings Committee.
- (3) The functions of the Ratings Committee shall be to:
 - (a) review the work of rating analysts;
 - (b) make final decisions on the ratings to be issued by the CRA;
 - (c) determine the methodologies to be used by the CRA;
 - (d) review the methodologies no less frequently than annually, unless the CRA obtains the agreement of the SEC to defer such a review;
 - (e) review the ratings and transition report (when published).

- (4) The Ratings Committee shall consist of at least three people.
- (5) A CRA shall have a documented procedure for appointing members of the Ratings Committee. The procedure shall follow the principles described in Paragraph 10(2) of the Securities Industry (Conduct of Business) Guidelines 2020. A CRA shall adopt procedures designed to ensure that each person appointed to the Rating Committee is a fit and proper person for that position.
- (6) When making appointments to the Ratings Committee, the CRA shall have regard to the need to avoid conflicts of interest in accordance with Paragraph 9 of these Guidelines. Where the nature of previous or current associations are such that there may be a reasonable perception of improper influence on the rating process, the appointment shall not be made.
- (7) A CRA shall inform the SEC of any change in the composition of the Ratings Committee within 14 days of such a change. The CRA shall explain the nature of the change and the reasons for it.
- (8) In addition to the functions described in Paragraph 9 of the Securities Industry (Conduct of Business) Guidelines 2020, the Audit Committee shall report annually to the Board on the effectiveness of the arrangements for avoiding and mitigating conflicts of interest that may affect the integrity of the rating process. The Audit Committee shall include in such a report, any dealings between the CRA and related parties. The Board, having reviewed the report, shall submit it to the SEC, together with any proposals they may have, for action resulting from the report.
- (9) Credit Rating Agencies shall develop for inspection by the SEC, in addition to any other reporting requirements as stipulated in these Guidelines or in the Securities Industry (Conduct of Business) Guidelines 2020, standing policies which shall be reviewed periodically in respect of the following;
 - (a) Rating withdrawal and suspension
 - (b) Unsolicited rating
 - (c) Rating fees
 - (d) Rating appeal process
 - (e) Rating announcement
 - (f) Treatment of confidential information
 - (g) Personal investment and proprietary trading of the CRA
 - (h) The treatment of defaults
 - (i) Rating surveillance policy and process
- (10) A licensed CRA shall have the requisite professionals to perform the functions of a CRA efficiently, honestly and fairly.
 - (a) When implementing the provisions of Paragraph 16 of the Securities Industry (Conduct of Business) Guidelines 2020, a CRA shall ensure that the people it recruits have the necessary skills and are provided with the appropriate training for the delivery of high quality, independent, objective and credible rating opinions.
 - (b) The subject matter covered by the training should be relevant to the employee's responsibilities and shall include, as applicable,

- (i) the CRA's code of conduct,
 - (ii) the CRA's credit rating methodologies and procedures for ensuring that they are applied consistently,
 - (iii) the laws governing the CRA's credit rating activities,
 - (iv) the CRA's policies, procedures, and controls for managing conflicts of interest and governing the holding and transacting in trading instruments,
 - (v) and the CRA's policies and procedures for handling confidential and/or material non-public information.
- (11) A CRA shall disclose in its annual report to the SEC, the names of its directors, principal officers and members of the Ratings Committee.
- (12) A CRA shall also disclose in its annual report to the SEC, all shareholders with at least five percent shareholding together with their percentage holdings.

4. The adoption of a code of conduct

- (1) The internal controls required by Paragraph 12 of the Securities Industry (Conduct of Business) Guidelines 2020 shall include a code of conduct that gives full effect to these Guidelines and to the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies. Where there are provisions in these guidelines that are more stringent than the provisions in the IOSCO Code of Conduct, the guidelines shall take precedence.
- (2) Where amendments to these Guidelines are issued by the SEC, a CRA shall amend its code of conduct to give full effect to those amendments, within the time period specified by the SEC.
- (3) Where IOSCO publishes any amendments to its Code of Conduct Fundamentals for Credit Rating Agencies, the SEC will inform all CRAs that an amendment has been made. A CRA shall give full effect to all such revisions within one year of being informed by the SEC.
- (4) A CRA shall publish its code of conduct on its website.

PART TWO: THE QUALITY AND INTEGRITY OF THE RATING PROCESS

5. The quality of the rating process

- (1) A CRA shall establish, maintain, document, and enforce a credit rating methodology for each class of entity or obligation for which the CRA issues credit ratings. Each credit rating methodology shall be rigorous, capable of being applied consistently, and, where possible, result in credit ratings that can be subjected to some form of objective validation based on historical experience.
- (2) For each rating action, a CRA shall use the methodology adopted for that category of rating and shall use the methodology consistently across all entities and obligations for which the methodology is used.
- (3) A CRA shall avoid issuing any credit ratings that contain misrepresentations or are otherwise misleading as to the general creditworthiness of the rating target.
- (4) A CRA shall publish and take full responsibility for all its ratings in its own name and not in the name of any individual rating analyst or other employee.

- (5) A CRA shall ensure that credit ratings reflect all reliable information available to, and believed to be relevant by, the CRA, consistent with the applicable methodology that is in effect. A CRA shall establish, maintain, document and enforce policies, procedures and controls to ensure that all relevant available information is obtained, that the information is reliable and that credit ratings and related reports it disseminates are based on a thorough analysis of all such information.
- (6) A CRA shall ensure that the information it uses in assigning a rating is sufficient, particularly in terms of scope and reliability, to support a credible rating. A CRA shall refrain from assigning a rating, and shall ensure that any existing rating is withdrawn, where the CRA does not have sufficient reliable information to support a credible rating. Where the rating involves a type of financial product presenting limited historical data (such as an innovative financial vehicle), the CRA shall make clear, in a prominent place within the rating report, the limitations of the rating.
- (7) A CRA shall ensure that it has, and devotes, sufficient knowledge, expertise and resources to carry out high-quality credit ratings of each of its rating targets. When deciding whether to rate or continue rating a rating target, it shall assess whether it is able to devote sufficient skilled resources. A CRA shall not accept an engagement to issue a rating, shall not continue to rate a target and shall not issue an unsolicited rating unless it is satisfied that it has sufficient knowledge, expertise and other resources to do so.
- (8) For each rating action, a CRA shall assign staff who individually or collectively, have appropriate knowledge and experience in developing a credit rating of the type of entity or obligation being rated.
- (9) A CRA shall ensure that its facilities, including information technology and premises, as well as availability of records and environment are sufficient to enable a credit rating to be assigned.
- (10) A CRA shall structure its rating teams to promote continuity and avoid bias in the rating process. Where practicable, in view of a CRA's staffing resources, representatives who are involved in the rating process shall be subject to an appropriate rotation mechanism which shall provide for gradual change in rating teams.
- (11) A CRA shall not issue a rating unless it has been approved by the Ratings Committee.
- (12) A CRA shall invite the Ratings Committee, or a separate group consisting of senior staff members with appropriate experience, to review the feasibility of providing a credit rating for a type of entity or obligation that is materially different from the existing entities or obligations the CRA rates.
- (13) A Committee, other than the Ratings Committee, shall undertake a rigorous and formal review, no less frequently than annually, of
 - (a) the methodologies and models, and significant changes to the methodologies and models, it uses, and
 - (b) the adequacy and effectiveness of its systems and internal control mechanisms.

The findings of any such review should be comprehensively recorded in a written report, a copy of which shall be provided to the SEC upon its completion. A CRA shall take appropriate measures to address any deficiencies identified during the course of any such review.

- (14) When the Ratings Committee conducts a review of ratings methodologies, it may seek the assistance of skilled staff or consultants, except that those undertaking the review shall not be the same people as those who constructed the methodology originally.
- (15) When the CRA makes a material change to its methodology or assumptions, it shall identify all the ratings that might be affected by the change and review them within six months. Disclosures should be made according to paragraphs 10 and 11 of these Guidelines.
- (16) A CRA may issue unsolicited ratings, provided that it abides by the provisions in these Guidelines regarding such ratings. The obligations defined in these Guidelines apply to unsolicited ratings as they do to all other ratings.
- (17) A CRA shall keep records properly and in line with all applicable statutory requirements, including the provisions of the Act and Paragraph 27 of the Securities Industry (Conduct of Business) Guidelines 2020. Proper record keeping includes maintaining records to support credit ratings prepared by a CRA and enable the rating process to be reconstructed. The records shall be sufficient to permit internal audit, compliance, and quality control functions to review past credit rating actions in order to carry out the responsibilities of those functions. These shall include but not be limited to minutes or summary of discussions during the rating process, minutes of the decision of Rating Committee and the rating model used. The seven-year record keeping requirement in Paragraph 27 of the Securities Industry (Conduct of Business) Guidelines 2020 shall commence at the time the CRA ceases to rate entities and obligations.
- (18) A CRA shall clearly define a given rating symbol and apply it in a consistent manner for all types of entities and obligations to which that symbol is assigned.

6. Monitoring and Updating

- (1) A CRA shall ensure that adequate personnel and financial resources are allocated to monitoring and updating its ratings. Except for a credit rating that clearly indicates it does not entail ongoing surveillance, once a rating is published, the CRA shall monitor, on an ongoing basis, and update the rating by:
 - (a) reviewing, no less frequently than annually, the rating target's credit worthiness;
 - (b) conducting sufficient monitoring of the securities and issuers, including, where appropriate, engaging with the issuers to satisfy itself that it is informed in a timely manner of any material information affecting the rating of the securities;
 - (c) initiating a review of the status of a rating upon becoming aware of any information that might reasonably be expected to result in the rating requiring revision or termination, consistent with the methodology;
 - (d) reviewing the impact of, and applying a change in the credit rating methodologies, models or key rating assumptions on the relevant credit ratings within a reasonable period of time;
 - (e) placing a security on a rating watch and then setting and abiding by a time by which a rating will be revised (which shall be no longer than six months, once a review has commenced); and
 - (f) revising the rating according to all material available information at the time of the review.

- (2) Subsequent monitoring shall incorporate all cumulative experience obtained. Changes in methodologies, models or key assumptions used in preparing credit ratings shall be applied where appropriate to both initial ratings and subsequent ratings. A CRA shall review credit ratings that are affected by any change to methodologies or assumptions as soon as possible and not later than six months after the change, and shall in the meantime place those ratings under observation.
- (3) Where a CRA concludes that it cannot obtain sufficient information, or ceases to have sufficient skills, experience, resources or other facilities to be able to continue to support and update a rating, it shall discontinue the rating.
- (4) Where a CRA uses separate analytical teams for determining initial ratings and for subsequent monitoring of ratings, each team shall have the requisite level of expertise and resources to perform their respective functions in a timely manner.
- (5) A CRA shall establish, maintain, document, and enforce policies and procedures that clearly set forth guidelines for disseminating credit ratings that are the result or subject of credit rating actions and the related reports, and for when a credit rating will be withdrawn.
- (6) Where a rating is made available to the public, the CRA shall in a timely manner publicly announce if the rating is discontinued and include full reasons for such discontinuation. Where a rating is provided only to subscribers, the CRA should in a timely manner announce (or ensure that its affiliate announces) to such subscribers if the rating is discontinued and include full reasons for such discontinuation. In both cases, the CRA shall ensure that continuing publications of the discontinued rating indicate the date the rating was last updated, the fact that the rating is no longer being updated and include full reasons for its discontinuation.
- (7) A CRA shall ensure that any “private rating” (prepared by the CRA pursuant to a request made by a person which is exclusively prepared for, and provided to, the person and that is neither intended for dissemination to the public or distribution by subscription, whether in Ghana or elsewhere, nor reasonably expected to be so disseminated or distributed), is only subsequently disseminated to the public or distributed by subscription, whether in Ghana or elsewhere, if such rating has been prepared in compliance with the provisions of these Guidelines. In the case of a CRA providing a private rating, the CRA shall by prior written agreement entered into between it and the rated entity, prohibit the rated entity from disseminating such rating, or permitting its dissemination, to the public.
- (8) A CRA’s obligation to continue to monitor a security is discharged if the CRA itself becomes bankrupt or otherwise ceases to conduct business, or if the issuer ceases to conduct business.
- (9) Where a CRA issues an unsolicited rating, the monitoring and updating of obligations as set out in this Guideline shall apply in the same way as for all other ratings.

7. Integrity of the rating process

- (1) A CRA and its representatives shall deal fairly and honestly with rated entities, obligors, originators, underwriters, arrangers, other market participants, users of credit ratings and the public.
- (2) A CRA and its employees shall not, either implicitly or explicitly, give any assurance or guarantee to an entity subject to a rating action, obligor, originator, underwriter, arranger, or user of the CRA’s credit ratings about the outcome of a particular credit rating action.

- (3) The Compliance Officer appointed in accordance with Paragraph 13 of the Securities Industry (Conduct of Business) Guidelines 2020 shall be responsible for monitoring compliance by the CRA and its employees with its internal procedures and with any law, rules, Guidelines, codes or other requirements which apply to the CRA and are issued, administered or enforced by the SEC or any other regulatory authority or agency. This person's reporting lines shall be to the board of the CRA and in turn make returns to the SEC but compensation will be provided by the CRA. In addition, the compliance officer must attend various trainings provided by the SEC to help him/her carry out their assignment(s).
- (4) A CRA shall institute policies and procedures requiring its rating analysts and other employees, upon becoming aware that another rating analyst or employee is engaging, or has engaged in conduct that is illegal, unethical or contrary to the CRA's internal procedures, to report such information immediately to the Compliance Officer or a responsible officer of the CRA for appropriate action.
- (5) A CRA shall ensure that its Compliance Officer or responsible officer, who receives a report as described in (4) above, is obligated to take appropriate action, including such action as is required by any law, rules, Guidelines, codes or other requirements which apply to the CRA and are issued, administered or enforced by the SEC or any other regulatory authority or agency, and by the CRA's own internal procedures. A CRA shall institute measures to protect any representative or employee who, in good faith, makes such a report.

PART THREE: AVOIDING CONFLICTS OF INTEREST

8. Independence of the rating process

- (1) A CRA and its representatives shall use care and professional judgment to maintain both the substance and appearance of independence and objectivity.
- (2) A CRA shall ensure that the determination of a credit rating is influenced only by factors relevant to the credit assessment.
- (3) Neither a CRA nor its rating analysts, nor any other employee shall give advice to issuers on how to structure products in order to achieve a pre-determined rating.
- (4) A CRA shall not issue any kind of promise, warning or threat about potential credit rating action to influence rated entities, obligors, originators, underwriters, arrangers or users of the CRA's credit ratings to put improper pressure on them to do or refrain from doing something.
- (5) A CRA shall take reasonable steps to ensure that rating analysts, members of the Ratings Committee and any other person who has an influence on a rating are not subject to improper influence by rated entities, other clients, shareholders, directors or management.
- (6) A CRA shall not delay or refrain from issuing a rating because of an assessment of the potential effect (economic, political, or otherwise) on the CRA, a rated entity, an investor, or other market operator.
- (7) The rating a CRA assigns to a rating target shall not be affected by the existence of, or potential for, a business relationship between the CRA (or its affiliates) and the rated entity (or its affiliates), or any other party, or by the non-existence of such a relationship.

- (8) Rating analysts shall not be engaged in any other business undertaken by the CRA. They shall not be involved in any business development or marketing of the CRA's services. They shall not solicit business on behalf of the CRA
- (9) A CRA shall not enter into any contingent fee arrangement for providing credit rating services.
- (10) A CRA's internal procedures shall provide that a rating analyst, members of the Ratings Committee and any other person with an influence on ratings will not be compensated or evaluated or receive any other income on the basis of the amount of revenue that the CRA derives from the ratings.
- (11) Rating analysts, members of the ratings Committee and other employees with an influence on ratings shall not initiate, or participate in, discussions regarding fees or payments with any entity they rate.
- (12) Rating analysts and other employees of a CRA shall be prohibited from soliciting money, gifts or favours from anyone with whom the CRA does business and shall be prohibited from accepting gifts.
- (13) A CRA shall establish, maintain, document and enforce policies and procedures for reviewing, without delay, the past work of rating analysts and members of the Ratings Committee who leave the employment of the CRA and join
 - a. A rated entity the rating analyst has been involved in rating; or
 - b. a financial firm with which the rating analyst or other employee has had significant dealings as part of his or her duties.

9. Conflict of Interest

- (1) A CRA shall not carry on any business which can reasonably be considered to have the potential to give rise to any conflict of interest in relation to its business of providing credit rating services. A CRA shall ensure that any ancillary business does not create a conflict of interest with its ratings business.
- (2) A CRA shall establish, maintain, document, and enforce policies, procedures, and controls to
 - (a) identify, and
 - (b) eliminate, or
 - (c) minimise, manage and disclose, as appropriate,any actual or potential conflicts of interest that may influence
 - i. the ratings the CRA makes, or
 - ii. the credit rating methodologies, credit rating actions or analysis of the CRA or the judgement and analysis of CRA's employees.
- (5) A CRA shall segregate its rating business from any other activities, such as consulting or advisory business, in which it is engaged. Segregation shall include the following measures:
 - (a) A person shall not work on the preparation or approval or ratings while also being engaged in other business activities for the CRA provided conflict of interest does not arise;

- (b) Reporting lines should be kept separate so far as possible;
 - (c) The revenue from other activities shall be accounted for separately from its rating activities.
- (6) A CRA shall disclose its conflict avoidance and management measures.
 - (7) For the avoidance of doubt, a CRA shall not provide consultancy or advisory services to a rated entity, or a related party of a rated entity, regarding the corporate or legal structure, assets, liabilities or activities of that rated entity or related party.
 - (8) A CRA shall disclose, in a timely manner, actual conflicts of interest. The disclosure shall be complete, clear, concise, specific and prominent and shall include those that may affect the judgement of rating analysts, members of the Ratings Committee and any other employee with an influence on ratings. Where the actual or potential conflict of interest is unique or specific to a credit rating action with respect to a particular rated entity, obligor, originator, lead underwriter, arranger, or obligation, such conflict of interest shall be disclosed in the same form and through the same means as the relevant credit rating action.
 - (9) A CRA shall make full public disclosure of any ancillary business or service and in a timely manner and update such disclosure regularly. It shall state in its disclosure why the ancillary business cannot reasonably be considered to have the potential to give rise to any conflict of interest with the CRA's credit rating business.
 - (10) A CRA shall not assign a rating to an issuer or securities of an issuer that is a related party.
 - (11) (a) A CRA, its rating analysts, members of the Ratings Committee and other employees shall not hold securities or derivatives, or engage in any securities or derivatives trading giving rise to conflicts of interest with its rating activities, or which might reasonably be expected to give rise to such conflicts of interest.
 - (b) Without limiting the generality of this provision, a CRA, its rating analysts, members of the Ratings Committee and other employees must also ensure that it does not hold, or engage in any transactions, involving securities issued by a client while securities issued by that client are subject to a rating and for a period of two years after the expiration of the rating period.
 - (c) A CRA shall take reasonable measures to extend these requirements to related parties of rating analysts and other employees.
 - (12) In addition to the provisions of Paragraph 17 of the Securities Industry (Conduct of Business) Guidelines 2020, no rating analyst, member of the Ratings Committee or other employee shall take part in the preparation of a rating or any other rating action if he or she, or a related party:
 - (a) Holds or transacts in a trading instrument issued by the rated entity or obligor;
 - (b) Holds or transacts in a trading instrument (other than a diversified collective investment scheme) that itself owns an interest in the rated entity or obligor, or is a derivative based on a trading instrument issued by the rated entity or obligor;
 - (c) Holds or transacts in a trading instrument issued by an affiliate of the rated entity or obligor, the ownership of which may cause or may be perceived as causing a conflict of interest with respect to the employee or the CRA;

- (d) Holds or transacts in a trading instrument issued by a lead underwriter or arranger of the rated obligation, the ownership of which may cause or may be perceived as causing a conflict of interest with respect to the employee or the CRA;
 - (e) Is currently employed by, or had a recent employment or other significant business relationship with the rated entity or obligor or a lead underwriter or arranger of the rated obligation that may cause or may be perceived as causing a conflict of interest;
 - (f) Currently works for or is a director of the rated entity or obligor, or lead underwriter or arranger of the rated obligation; or
 - (g) Has, or had, another relationship with or interest in the rated entity or any related party, obligor, or the lead underwriter or arranger of the rated obligation (or any of their affiliates) that may cause or may be perceived as causing a conflict of interest.
 - (h) Holds or transacts in securities or derivatives of the rated entity, other than holdings in collective investment schemes;
 - (i) Currently works for or is a significant shareholder in the rated entity; or
 - (j) Is in possession of confidential information save for information provided to the Credit Rating Agency by the rated entity.
- (11) A rating analyst or any other employee involved in any personal relationship that creates an actual or potential conflict of interest shall be required to disclose such relationship to the Compliance Officer or responsible officer of the CRA who is designated for such purpose by the CRA's compliance policies.
- (12) Reporting lines for rating analysts, members of the Ratings Committee and their compensation arrangements shall be structured to eliminate, or effectively manage, actual and potential conflicts of interest.
- (13) A CRA shall conduct periodic reviews of its compensation policies, procedures and practices for rating analysts and other employees to ensure that the policies, procedures and practices have not compromised and do not compromise the objectivity of the CRA's rating process. Such reviews shall be submitted to the Audit committee.
- (14) A CRA shall disclose its fee structure to the SEC at least one month before the beginning of each financial year.
- (15) When entering into a client agreement with an issuer, a CRA shall include in that agreement, the rights and obligations of the parties, the fees, the frequency of the rating review and the disclosure practices of the CRA.
- (16) A CRA shall disclose the general nature of its compensation arrangements with rated entities, obligors, lead underwriters or arrangers including:
- (a) Where a CRA or any affiliate of the CRA that is a CRA, receives from a rated entity, obligor, lead underwriter or arranger, compensation unrelated to its ratings service, the CRA shall disclose such unrelated compensation as a percentage of total annual compensation received from such rated entity, obligor, lead underwriter or arranger in the relevant credit rating report or elsewhere as appropriate; and
 - (b) Where 10% or more of –

- (i) the CRA's total annual revenue; or
- (ii) the combined annual revenue of the CRA and any affiliate of the CRA that carries out credit rating activities,

is received from a single client, being, a rated entity, obligor, originator, arranger, lead underwriter, or subscriber and/or any of their affiliates, the CRA shall disclose this fact in the relevant rating report or elsewhere as appropriate.

- (17) Where rated entities or obligors such as sovereign nations or state, have, or are simultaneously pursuing, oversight functions related to a CRA, the employees responsible for interacting with the officials of the rated entity or the obligor's officials regarding supervisory matters shall be separate from the employees that participate in taking credit rating actions or developing or modifying credit rating methodologies that apply to such rated entity or obligor.

PART FOUR: DISCLOSURES

10. Disclosure of Ratings

- (1) A CRA shall, in a timely manner, publicly disclose all ratings, updates of such ratings, and other rating actions provided that this obligation shall not apply to "private ratings" given only to subscribers. In the case of public ratings, a CRA may draw its public disclosures to the attention of key stakeholders such as issuers, investors and market operators, although it may not provide any group with preferential access to the ratings. In the case of ratings that are only given to subscribers, a CRA shall disclose all such ratings and updates of such ratings to such subscribers in a timely manner.
- (2) A CRA shall make disclosures on public or private ratings simultaneously to all those entitled to receive them. Disclosures shall not be made on a selective basis within the category of those entitled to receive them.
- (3) A CRA shall be transparent with investors, rated entities, obligors, underwriters and arrangers about how the relevant entity or obligation is rated. It shall indicate the attributes and limitations of each rating. A CRA shall disclose the extent to which the CRA has verified the information provided by the rated entity. It shall disclose key assumptions and data and indicate if it has made adjustments to financial data published by the rated entity.
- (4) A CRA shall disclose its policies and procedures for distributing its ratings, updates and other rating actions including the withdrawal of a rating. This shall include the stakeholders to whom disclosures will be made directly, such as the issuers, investors, analysts, fund managers and securities dealers.
- (5) A CRA shall maintain and update as appropriate, a website which will be free of charge and which will include all public ratings and other disclosures required to be made public by these Guidelines.
- (6) A CRA shall disclose, with each rating, the relevant information and analysis to support its conclusions. The disclosure shall include qualitative and quantitative information on the obligations or entity and the issue and rating factors, including, but not limited to;
 - (a) the meaning of each rating category,
 - (b) the definition of default or recovery,

- (c) any appropriate risk warning, including a sensitivity analysis of the key rating assumptions, such as mathematical or correlation assumptions used in its credit rating activities as well as any material changes to these, and
 - (d) credit enhancements available
- (7) A CRA shall ensure that each of its ratings include;
- (a) a statement as to whether a security is being rated for the first time;
 - (b) information on when the security was issued;
 - (c) information and history for updated ratings;
 - (d) A statement as to the methodology that was used and where its description can be found;
 - (e) a clear and prominent statement identifying the name and job title of the lead rating analyst who is responsible for the rating and the name and the position of the person primarily responsible for approving the rating; and
 - (f) a statement to the effect that the rating is an expression of opinion not a recommendation to buy, sell or hold a security or to invest or disinvest in the relevant asset class.
- (8) A rating report shall disclose any conflict of interest that is relevant to that rated security or rated entity. If there are no conflicts of interest, the rating report shall state this.
- (9) A CRA shall explain in its press releases and reports the key elements underlying the rating when issuing or revising a credit rating.
- (10) A CRA shall, prior to issuing or revising a rating, inform the rated entity of the critical information and principal considerations upon which a rating will be based and afford the rated entity an opportunity to clarify any factual errors, factual omissions or factual misrepresentations or other matters that the CRA would wish to be made aware of in order to produce an accurate rating.
- (11) Where, in particular circumstances, the CRA has not informed the rated entity prior to issuing or revising a rating, the CRA shall inform the rated entity as soon as practicable thereafter and explain the reason for the delay.
- (12) A CRA shall, where sufficient historical data exists;
- (a) publish information about the historical default rates of securities for which it has issued ratings and about ratings transition frequency.
 - (b) disclose, whether the default rates of the different categories of rating of securities have changed over time.
- (13) A CRA shall provide explanation, where the nature of a rating, or other circumstances, make a historical default rate inappropriate, statistically invalid, or misleading.
- (14) A CRA shall assist investors and other users of credit ratings in developing a greater understanding of credit ratings by disclosing in plain language, among other things, the nature and limitations of credit ratings and the risks of unduly relying on them to make investment or other financial decisions. A CRA shall not use its licence to endorse or advertise the quality of its credit ratings.

11. Disclosure of Methodologies and Assumptions

- (1) Each rating announcement shall also indicate the principal methodology or methodology version that was used in determining the rating and where a description of that methodology can be found. Where the rating is based on more than one methodology, or where a review of only the principal methodology might cause investors to overlook other important aspects of the rating, the CRA shall ensure that this fact is explained in the ratings announcement. Such explanation should include a discussion of how the different methodologies and other important aspects were factored into the rating decision.
- (2) A CRA shall ensure that sufficient, clear and easily comprehensible information is published about its procedures, methodologies and assumptions to enable other parties understand how a rating was determined. This information shall include, but not be limited to, the meaning of each rating category and the definition of default or recovery, and the time horizon the CRA used when making a rating decision.
- (3) A CRA shall disclose clear definitions of the meaning of each category of its rating scales, including the definition of default.
- (4) A CRA shall disclose all material sources, including the rated entity and, where appropriate, a related party of the rated entity, which were used to prepare the credit rating. An indication as to whether the credit rating has been disclosed to the rated entity or to its related party and, following such disclosure, whether the credit rating has been amended before being issued shall be stated.
- (5) A CRA shall disclose the extent to which it has examined the quality of information used in the rating process and whether it is satisfied with the quality of information its rating is based on.
- (6) A CRA shall state prominently in each credit rating whether or not the rated entity, or any related party of the rated entity, participated in the credit rating process, and, for an unsolicited rating, whether the CRA had access to the accounts and other relevant internal documents of the rated entity or its related party.
- (7) A CRA shall disclose its policies and procedures regarding unsolicited ratings. The words “Unsolicited Rating” shall be prominently displayed on any such rating.
- (8) A CRA shall fully and publicly disclose any material modification to its methodologies and significant practices, procedures, and processes.
- (9) The disclosure of such material modifications shall be made prior to their going into effect, using the same means of communication, as was used for the distribution of the affected credit ratings.

12. Reporting to the SEC

- (1) In addition to the reporting requirements set out in Paragraph 3 and Schedule 1 of the Securities Industry (Conduct of Business) Guidelines 2020, a CRA shall include the following in its annual report to the SEC:
 - (a) A list of all ancillary services provided to rated clients and their associates in the reporting period, including the names of clients, income received and nature of services provided;

- (b) List of obligations and/ or entities rated in the preceding year and changes in rating during the year;
 - (c) Total number of ratings withdrawn
 - (d) Rating scale used
 - (e) A list of members of the Rating Committee, rating analysts and any other person who has an influence on a rating;
 - (f) A list of the holdings or interest in securities by Directors, Principal Officers, Members of the Rating Committee, licensed Representatives and other staff members of the CRA as at the end of the reporting period;
 - (g) A detailed report on corporate trading and holdings or interests in securities, and in other related companies at the close of the reporting period;
 - (h) A report on trading by any subsidiary;
 - (i) A report on the review of its rating methodologies and models;
 - (j) A report of all unsolicited ratings carried out in the last three financial years; and
 - (k) Names of issuers, which were given solicited rating in the last financial year.
 - (l) Any material modification of its systems, resources or procedures.
- (2) A CRA shall also report to the Commission the following on a semi-annual basis:
- (a) A list of all issuers on rating watch and/or in transition and subsequent rating actions taken;
 - (b) A report on all rating reviews during the period.
- (3) A CRA shall comply with the following additional reporting requirements to the SEC:
- (a) report within fourteen working days giving reasons and /or explanations to the SEC, any changes in its rating categories and symbols, policies or processes, analysis, methodologies or models and how those changes affect existing rating(s);
 - (b) report within fourteen working days with written explanation to the SEC, including any remedial actions taken on the occurrence of the following events:
 - i. Significant downgrades which results in a credit rating of an issuer being lowered by at least three notches in a single rating action;
 - ii. Any rating action within six months after an initial rating has been assigned;
 - iii. Frequent rating action where credit rating for a particular issue or issuer is changed more than once within a period of six months; and
 - (c) Any other explanation or information or an event as may be required by the SEC.

PART FIVE: MISCELLANEOUS

13. Structured Finance Products

- (1) Where a CRA rates a structured finance product, it shall disclose sufficient information about any actual or potential loss and cash-flow analysis, and an indication of any expected change in the credit rating.

- (2) A CRA shall assess whether existing methodologies and models for determining credit ratings of structured finance products are appropriate when the risk characteristics of the underlying assets change materially. Where the complexity of a new type of structured finance product or the lack of robust data about the underlying assets raise serious questions as to whether a CRA can determine a credible credit rating for it, the CRA shall not issue a rating.
- (3) (a) Where a CRA issues credit ratings of structured finance instruments, it shall accompany the disclosure with details of methodologies, models and key rating assumptions with clear and easily comprehensible guidance which explains assumptions, parameters, limits and uncertainties surrounding the models and rating methodologies used in such credit ratings, including simulations of stress scenarios undertaken by the agency when establishing the ratings.

(b) Where external data or information is used the credit rating agency shall identify sources of the key elements of the external data and information underlying its credit rating.
- (4) Issuers and originators of structured finance products shall publicly disclose all relevant information regarding these products so that investors and other CRAs can conduct their own analysis independently of the CRA contracted by the issuers or originators to provide a rating. CRAs shall ensure that rating announcements include disclosure as to whether the issuer of a structured finance product has informed the CRA that it is publicly disclosing all relevant information about the product being rated or whether the information remains non-public.
- (5) (a) A CRA shall disclose the degree to which it analyses how sensitive a rating of a structured finance product is to changes in the CRA's underlying rating assumptions.

(b) A CRA shall describe the due diligence processes conducted in relation to the underlying finance products, or other assets, of structured finance products. The CRA shall disclose whether it has undertaken such due diligence itself or whether it has relied on a third-party assessment, indicating how the outcome of such assessment influences the credit rating.

(c) Where third-party due diligence services are employed by a credit rating agency, such agency must, at the time it produces a credit rating, disclose any certifications from such third party providers.
- (6) A CRA shall disclose, on a timely and ongoing basis, information concerning structured finance products submitted to it for its initial review or for a preliminary rating. The disclosure shall be made irrespective of whether the issuer of such a product engages the CRA to provide a final rating.
- (7) A CRA shall differentiate ratings of structured finance products from traditional corporate bond ratings, preferably through different rating symbols or by using an additional symbol which differentiates them from rating categories used for other rated entities.
- (8) A CRA, its rating analysts, members of the Ratings Committee and other employees with an influence on ratings are prohibited from making proposals or recommendations regarding the activities of rated entities or obligors that could affect a credit rating, including but not limited to corporate or legal structure, assets and liabilities, business

operations, investment plans, lines of financing, business combinations, and the design of structured finance products.

- (9) A CRA shall disclose the track record of the promoter and originator in relation to structured finance products. It shall also undertake updates semi-annually or such other frequency as the Commission may determine on the performance of the underlying assets

14. Confidential Information

- (1) A CRA shall, in addition to complying with the provisions of Paragraph 28 of the Securities Industry (Conduct of Business) Guidelines 2020, not disclose information shared with it in confidence by a rated entity, unless the rated entity consents to disclosure, or where disclosure is required by law, Regulations or guidelines.
- (2) A CRA shall use confidential information concerning an issuer of securities subject to a rating only for purposes related to its rating activities, except where the issuer has given its consent to further use of that information.
- (3) A CRA shall take all reasonable measures to protect all property and records belonging to it, or in its possession, from fraud, theft or misuse.
- (4) A CRA shall ensure that rating analysts and other employees of CRAs familiarize themselves with the internal securities trading policies maintained by the CRA, in preservation of confidential information, and periodically certify their compliance with such policies.
- (5) A CRA shall ensure that its rating analysts and other employees do not selectively disclose any non-public information about ratings, or the possible future issue or revision of ratings of the CRA, except to the rated entity or its designated agents. It shall further ensure that rating analysts and other employees do not use confidential information for any other purpose than the preparation of ratings or purposes to which the issuer (and the person providing the information, if different) has consented.
- (6) A CRA and its representatives and employees shall not share confidential information within the CRA, or with any other member of a financial group of which the CRA is a part, unless such disclosure is required as part of the ratings process, required by law, Regulations or Guidelines or has the consent of the person who owns or is the subject of that confidential information.

15. Transition

A CRA that is already in business at the time these Guidelines are published shall comply in full no later than one year after the date of publication. Any new CRA seeking a licence shall be required to be in full compliance as soon as the licence is granted.

16. Sanctions

Where a person fails to comply with these Guidelines, the SEC may take action as set out in Section 209 of the Act or apply such greater penalty where the breach also involves a breach of requirements in the Act or Regulations for which a higher penalty is prescribed.

17. Interpretation

- (1) In these Guidelines, all terms carry the same meaning as in the Act except otherwise provided.

“the Act” means the Securities Industry Act 2016 (Act 929) as amended by the Securities Industry (Amendment) Act, 2021(Act 1062),;

“affiliate” means an entity that directly or indirectly controls, is controlled by, or is under common control with another entity.

ancillary business” means an activity undertaken by a CRA or a service offered by the CRA, whether or not for profit, other than the provision of credit ratings and the term “ancillary service” shall be construed accordingly;

“Contingent fees” means fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the CRA.

“CRA” means a credit rating agency;

“credit rating methodology” means the procedure by which a CRA determines credit ratings, including the information that must be considered or analysed to determine a credit rating and the analytical framework used to determine the credit rating, including, as applicable, the models, financial metrics, assumptions, criteria, or other quantitative or qualitative factors to be used to determine the credit rating;

“Credit rating process” means all the steps taken with respect to a credit rating action including, but not limited to, the CRA’s selection and assignment of analysts to work on the matter, application of the credit rating methodology, decision-making activities such as the operation of a rating committee, interaction with the rated entity, obligor, originator, underwriter, or arranger, and as applicable, dissemination of the credit rating publicly or to subscribers.

“Entity” means a government; political subdivision, agency, or instrumentality of a government; or a company, corporation, partnership, trust, estate, or association.

“IOSCO” means the International Organisation of Securities Commissions;

“IOSCO Code of Conduct” means the Code of Conduct Fundamentals for Credit Rating Agencies, published by IOSCO in March 2015 and subsequently as amended by IOSCO from time to time;

“Improper influence” means any attempt to persuade rating analysts, members of the Ratings Committee and any other person who has an influence on a rating to take decisions other than in accordance with factors relevant to the credit assessment.

“Obligation” means a trading instrument, credit commitment, loan, or other similar product or transaction that has inherent credit risk.

“rating” means an opinion regarding the creditworthiness of an entity or obligation, expressed using an established methodology, all available relevant information and a defined ranking system.

“rating action”: means any initial rating, any change, withdrawal, affirmation or suspension of an existing rating, any credit watch action, and any other rating indicators including, but not limited to, a rating outlook;

“rating analyst” means a person employed by the CRA, or otherwise working with the CRA (whether or not remunerated) to conduct research and analysis that is necessary for the issuing or monitoring of a credit rating;

“rating committee” means a committee constituted by a credit rating agency to assign rating to an obligation or entity based on analyses of relevant information presented to it by rating analysts.

“related party”

for a CRA is:

- (i) a shareholder,
- (ii) a company which is a subsidiary, or a company, 10 per cent or more of whose shareholders are also shareholders of the CRA;
- (iii) any director, employee or other close business associate of (i) and (ii) above.

For an employee of a CRA means a person or entity who falls within any one of the following categories:

- (i) Spouse;
- (ii) Parent;
- (iii) Child including an adopted child and step-child;
- (iv) Brother or sister; and
- (iv) Spouse of the person referred to in subparagraphs (iii) and (iv) above.
- (v) In the case of a director of a CRA it means, in addition, any company, or organisation of which the director has a significant shareholding or by which it is employed or with which it is a close associate.

“substantial shareholder” shall have the meaning assigned to it in the Act.

“structured finance product” means securities or a money market instrument issued by an asset pool or as part of any asset-backed or mortgage-backed securities transaction.

“trading instrument” means a security, money market instrument, derivative or other similar product.

“unsolicited rating” means Credit ratings not arising out of an agreement between a CRA and an issuer.