

# **GUIDELINES ON REGISTRATION OF CREDIT RATING AGENCIES**

**SC-GL/CRA-2011 (R1-2019)**

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**Suruhanjaya Sekuriti**  
Securities Commission  
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## 1.0 INTRODUCTION

- 1.1 Credit rating agencies (CRAs) play an important role in the development of corporate bond market in Malaysia. Hence, it serves the best interest of the bond market for CRAs to conduct their credit rating activities in accordance with principles of integrity, transparency, quality and good governance.
- 1.2 Since January 2006, the Securities Commission Malaysia (SC) has introduced a regulatory framework on CRAs in Malaysia to ensure that they uphold these principles when providing credit rating services. The regulatory framework is outlined in the SC's ***Practice Note on the Guidelines on the Offering of Private Debt Securities and the Guidelines on the Offering of Islamic Securities*** (Practice Note) to recognise a CRA for the purpose of rating bond issues.
- 1.3 The regulatory requirements on CRAs have subsequently been rationalised with the coming into force of the *Capital Markets and Services Act 2007* (CMSA) in September 2007. Following this, CRAs are regulated as registered persons pursuant to section 76(1)(a) of the CMSA.
- 1.4 The regulatory landscape on CRAs has recently experienced a dramatic shift on the global scale. Major jurisdictions, including the United States, European Union, Japan, Australia and India have undertaken various regulatory measures to strengthen oversight on CRAs and to raise the standards of CRAs. The International Organization of Securities Commissions (IOSCO) has also revised its Objectives and Principles of Securities Regulation in June 2010 to include a new principle for CRAs<sup>1</sup>. Considering this development, it is important for the SC to ensure that our CRAs continuously adhere to international standards and best practices.
- 1.5 In reviewing the current regulatory and supervisory framework on CRAs, the SC has engaged and sought feedback from relevant players comprising investors, issuers, advisors and trustees in the domestic bond market. Robust discussions have also been held with CRAs for this purpose. One of the key observations is the need to enhance the governance structure of the CRAs, including rating holding companies whose core business is in credit rating services provided by CRAs. On the basis that the rating holding company has a substantive portion of its businesses derived from the CRA as well as having effective control on the CRA, which it has majority ownership and managing control, the scope of these guidelines is extended to cover such holding company and controllers of CRAs, wherever relevant.
- 1.6 Following this, the ***Guidelines on Registration of Credit Rating Agencies*** (Guidelines) are issued to set out the regulatory and supervisory requirements for CRAs that provide credit rating services in Malaysia.

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<sup>1</sup> The new principle states that "*credit rating agencies should be subject to adequate levels of oversight. The regulatory system should ensure that credit rating agencies whose ratings are used for regulatory purposes are subject to registration and ongoing supervision.*"

- 1.7 These Guidelines are issued under section 377 of the CMSA.
- 1.8 These Guidelines shall supersede the Practice Note issued by the SC on 25 January 2006.
- 1.9 For the purposes of these Guidelines,
- (a) the term "controller" in relation to a CRA, means a holding company of the CRA or a person who—
    - (i) has the power to appoint or cause to be appointed a majority of members of the board of directors of a CRA; or
    - (ii) has the power to make or cause to be made, decisions in respect of the business or administration of a CRA, and to give effect to such decisions or cause them to be given effect to;
  - (b) the term "core business" means the business which provides the principal source of operating revenue to a corporation and which comprises the principal activities of the corporation and its holding or subsidiary companies;
  - (c) the term "credit rating agency" or "CRA" means a registered person under the CMSA which provide credit rating services for issuance or offerings of debentures and Islamic securities;
  - (d) the term "external member" means any independent person who is not related to a CRA, its rating holding company or its controllers;
  - (e) the term "family" means such person 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
    - (v) Spouse of the person referred to in subparagraphs (iii) and (iv) above;
  - (f) the term "holding company" has the meaning assigned to it in section 5 of the *Companies Act 1965* and includes ultimate holding company under section 5A of the *Companies Act 1965*;

- (g) the term "independent director" has the meaning assigned to it under *Listing Requirements of Bursa Malaysia Securities Berhad*; and
  - (h) the term "rating holding company" means a holding company whose core business is in rating services of CRA and includes but is not limited to a holding company that derives more than 50% of its consolidated revenue or profit from the CRA, or that invests more than 50% of its assets in the CRA over a period of three years consecutively.
- 1.10 The SC may exempt where it deems appropriate or upon application, grant exemptions or variations, from compliance with any requirement of these Guidelines, vary any provision in these Guidelines and impose any term or condition as it deems fit.

## **2.0 REGISTRATION CRITERIA**

- 2.1 A CRA shall meet the criteria as provided in this paragraph and shall undertake to continuously meet these criteria.

### **I. Capital requirement and financial resources**

- 2.2 A CRA shall maintain minimum shareholders' funds unimpaired by losses of RM10 million, or such amount as may be specified by the SC, at all times to operate independently and to withstand economic and financial pressures.

### **II. Shareholding structure**

- 2.3 A CRA shall maintain a shareholding structure that will enable it to carry out its functions independently and objectively. To ensure this requirement is met, a CRA and its rating holding company shall obtain approval from the SC before effecting any significant change to its shareholding structure, which includes–
- (a) the creation of a holding company or ultimate holding company of a CRA; or
  - (b) the change of shareholdings (including interest in shares) which results in a person controlling 20% or more of the paid-up capital of the CRA, and any subsequent cumulative increase in shareholding of 10% or more of the paid-up capital of the CRA, whether directly or indirectly.
- 2.4 The CRA shall also disclose the latest shareholding structure (with percentage of shareholding for each shareholder) in its website.

### **III. Rating criteria, methodologies and policies**

- 2.5 A CRA shall use rating criteria, methodologies and policies that are robust, systematic and apply them consistently.
- 2.6 Rating criteria and methodologies shall be developed for each type of bond and industry to which they are applied. These rating criteria and methodologies shall be published before any rating is assigned to a bond issue, an issuer or an institution. The CRA shall include the rating philosophy or approach adopted, the parameters or thresholds which will be considered for different rating categories and benchmarks used, where applicable. The CRA shall develop and publish a set of rating criteria and methodologies as set out in Appendix 1 of these Guidelines. The criteria and methodologies listed in Appendix 1 are not meant to be exhaustive and, additional criteria and methodologies could be further specified by the SC from time to time.
- 2.7 A CRA shall, where relevant, incorporate corporate governance analysis and the relevant benchmark of corporate governance practices into its rating framework to assess any impact on credit risks of a bond issue.
- 2.8 A CRA shall establish a rating committee to assign and decide on credit ratings. All rating decisions, including decisions regarding changes in rating, shall be taken to the rating committee. A CRA shall not establish any other committee that would or would potentially affect the finality of decision of the rating committee.
- 2.9 To ensure objectivity and effectiveness of the rating committee, the following requirements are to be complied with by the CRA:
- (a) chairman of the rating committee shall be an external member;
  - (b) at least one-third or two individual members of the rating committee (whichever is higher) shall be external members; and
  - (c) all members of the rating committee must be experts who have adequate qualification, knowledge and experience in key industry sectors and financial markets in relation to credit ratings (“expertise requirement”).
- 2.10 As a measure to promote independence, integrity and credibility of the rating committee, the CRA shall not appoint any individual who–
- (a) has or is perceived to have a business development function of the CRA;  
or
  - (b) who initiates or participates in discussions regarding fees or payments with any client of CRA,



to be a member of the rating committee. However, on exceptional basis, the CRA is allowed to appoint not more than one individual of such background to the rating committee provided that the individual meets the expertise requirement referred to in subparagraph 2.9 for the purpose of credit ratings.

- 2.11 A CRA shall structure its rating teams and process to promote continuity, consistency and avoid bias in the rating process. Upon considering the adequacy of its staffing strength, the CRA shall use its best endeavour to subject its rating analysts to an appropriate rotation mechanism that provides for gradual change in rating teams.
- 2.12 A CRA shall establish a set of transparent policies, controls and procedures in order to ensure consistency of its rating operation as well as to maintain a fair and robust relationship with its external stakeholders. As a minimum standard, the CRA shall develop and publish rating policies as specified in Appendix 2 of these Guidelines.

#### **IV. Transparency and disclosure**

- 2.13 A CRA shall ensure timely disclosure of all rating opinions and adequately publish all information to support its rating opinions which include, but not limited to, assumptions and rationale of its opinion. The CRA shall ensure that its rating reports for initial ratings are published as soon as the ratings have been finalised, or prior to the issuance of bonds that are being rated.
- 2.14 The rating reports shall contain all pertinent information with sufficient analytical depth. The reports shall provide current and critical information on the bond issue and issuer as well as critical rating factors considered – both quantitative and qualitative. Where relevant, the rating reports shall include disclosure of any benchmark used, any sensitivity analyses performed and their results, comparative analyses made with other industries or companies and disclosure of any credit enhancements.
- 2.15 A CRA shall publish all information and documents required in these Guidelines on its website and ensure that the information and documents are freely and easily accessible by the public with exception of rating rationale reports.
- 2.16 In ensuring accountability of its rating opinions and promoting investor activism, a CRA shall arrange a robust and effective communication channel, either in the form of briefing or conference call, to explain and discuss its rating actions with the users, subscribers or any stakeholders of its rating services. Such communication shall be conducted by the chief rating officer (where applicable), lead analysts and analysts of the CRA as soon as practicable upon request from more than one rating user, and its subscribers or bond investors have been duly informed of the communication. Otherwise, the communication should be conducted either on a regular basis or on immediate basis which is deemed proper by CRAs.

- 2.17 A CRA shall clearly disclose its definition of “default” in a public domain. It shall be made clear whether a particular rating measures timely payment of debt obligations or includes recovery values expected after a default. In addition, a list of bonds downgraded to default should be disclosed and published by the CRA on its website on an annual basis based on the format prescribed in Appendix 3 of these Guidelines. A historical record of this default list (at least for the past five years) shall also be made available on the website.
- 2.18 To ensure completeness of the default probability statistics, a bond rating shall be withdrawn by a CRA only after it has assigned the latest rating action which includes downgrading the rating to default. Other withdrawal and suspension of rating shall be disclosed in the CRA’s withdrawal and suspension policy.
- 2.19 In order to promote transparency and to enable the market to best judge the average annual performance of the ratings, a CRA shall publish sufficient information about the historical default rates of the CRA rating categories and whether the default rates of these categories have changed over time, so that interested parties can understand the historical performance of each category and if and how rating categories have changed, and be able to draw quality comparisons among ratings given by different CRAs. The definitions and computation methods for the default rates stated in the default studies shall also be provided in the studies. The meaning of these default rates shall be clearly explained to the interested parties.

## **V. Independence, objectivity and conflict of interest**

- 2.20 It is essential that a CRA has a sound governance structure to maintain its independence, objectivity and professionalism. In this regard, the CRA shall, where possible, adopt and comply with the relevant corporate governance standards as laid out in the *Malaysian Code of Corporate Governance* on the structure of its Board of Directors. The CRA shall particularly ensure that one third of its Board of Directors or at least two individual members of the Board of Directors (whichever is higher) comprise independent directors who are professionally qualified and who have relevant corporate experience.
- 2.21 A CRA shall ensure that its rating teams are able to perform its duties free of undue intervention or influence from its shareholders and its Board of Directors.
- 2.22 Where an analyst, or any of his or her family member, has any interest in the bond issue, the analyst shall not be involved in the rating and monitoring process nor be involved in deciding on ratings.
- 2.23 A CRA shall establish appropriate policies and procedures governing investments in and trading of securities by its employees.
- 2.24 A CRA shall have adequate procedures and mechanisms in place to ensure that its ancillary business (if any) does not lead to a conflict of interest situation with

- its credit rating activities. The CRA and its holding company, where applicable, shall ensure that none of the ancillary services relating to advisory, origination and structuring of securities are offered to any of its rating clients by its employees or by its related corporation at all times.
- 2.25 A CRA shall, to the best of its knowledge, include a specific statement in its rating reports if rating fees for a bond issue or from a group of related issuers comprise five percent or more of its rating revenue from the preceding year.
- 2.26 Analysts and members of the rating committee of a CRA shall disclose all conflicts of interest, including those of his or her family members, to the public in its rating report for all bond issues. Even though there is no conflict of interest to be disclosed, the CRA shall include a statement in its rating report that the CRA, the analysts involved in the bond rating and members of its rating committee have not encountered nor are aware of any conflict of interest relating to the bond issue. However, this paragraph does not apply to a rating committee member in relation to his or her role under sub-paragraphs 2.10(a) and 2.10(b).
- 2.27 A CRA shall maintain principle of integrity in seeking rating business. For a bond issue which is rated by another CRA, a CRA shall not displace or replace the other CRA who is rating the bond issue, unless specifically approved by the SC.
- 2.28 A CRA shall independently employ at least one senior compliance officer, with sufficient working experience in the relevant field, on a full-time basis to be responsible for all compliance matters as provided in these Guidelines and the CRA's internal policies (including the CRA's code of ethical conduct). This officer shall continuously monitor for violations of the code by any employee and is required to prepare and submit status reports to the SC on compliance with the CRA registration and the code of ethical conduct.
- 2.29 In order to enable the compliance officer to discharge his or her duties properly and independently, a CRA shall ensure the following requirements are met:
- (a) the compliance officer has the necessary authority, resources, expertise and access to all relevant information;
  - (b) the compliance officer shall not be placed in a position where there are possible conflicts of interest between the compliance responsibilities and any other responsibilities;
  - (c) the compliance officer shall have a direct line of reporting to the CRA's independent directors (in addition to his or her regular reporting on the carrying out of duties to senior management); and
  - (d) inform the SC on the appointment of such compliance officer no later than three working days prior to the effective date of appointment. In the event of a cessation of employment of a compliance officer, the CRA shall also

give notice to the SC no later than three working days from its effective date.

## **VI. Monitoring of bonds rated by CRAs**

- 2.30 A CRA shall conduct timely and regular rating reviews of outstanding bonds and publish its rating reviews and reports on a timely and consistent basis. In this regard, the CRA shall ensure its annual rating review of a bond issue is conducted and rating report is published within a period not later than 15 months after the last annual rating review.
- 2.31 Notwithstanding the paragraph above, ratings shall be monitored such that any change in the issuer/issues' situation is reflected in the assigned rating on a timely and effective manner. Hence, a CRA shall initiate immediate review of rating status upon becoming aware of any information that may reasonably be expected to result in a rating action. The CRA shall also engage with bond issuer and bond trustee, where applicable on a timely basis to ensure that it has the most current information on the bond issue.
- 2.32 A CRA shall implement rating outlook and rating watch into their ratings monitoring framework with the necessary parameters. An indicative timeframe shall be set out by the CRA in finalising a rating action and the relevant rating reports after a bond issue is put on rating watch.

## **VII. Human resources and expertise**

- 2.33 A CRA shall have analysts who are competent and qualified to carry out rating assignments and subsequent monitoring of the bonds. In assessing the competence of its analysts, a CRA shall consider, among others, their level of education; experience within sectors, industries and geographic regions; experience with particular transactions and asset classes; and other specialty areas.
- 2.34 A CRA shall ensure that its analysts maintain sufficient high level of analytical and monitoring standards. In this regard, the CRA shall consider the number of bonds that can be effectively covered by a particular analyst, taking into account a broad spectrum of variables, including the size and complexity of the particular bond, and the experience and expertise of the analyst.
- 2.35 A CRA shall ensure that all staff involved in the rating and monitoring process are and remain qualified through adequate training. In this regard, it shall adopt policies and procedures designed to ensure that its analysts receive sufficient training and support to facilitate the generation of independent, objective and credible rating opinions.
- 2.36 A CRA shall ensure that its chief executive is primarily responsible for all key functions relating to rating operations as well as human resources and expertise

which include employment, promotion, remuneration and increment for its rating staff. The CRA shall put in place appropriate policies and procedures, including proper review and oversight by a resource committee on all matters relating to its human resource and expertise requirements.

## **VIII. Operational requirements**

- 2.37 A CRA shall have adequate infrastructure and information systems to provide reliable bond rating services and maintain its credit rating operations and facilities with adequate security, system capacity and contingency arrangements (including business continuity plan).
- 2.38 A CRA shall ensure that its rating agreement with bond issuer or originator contains sufficient provisions for it to obtain adequate information and to conduct effective and timely assessment on the bond issuer or originator throughout the tenure of the bond issue or programme.
- 2.39 A CRA shall keep records properly and in line with all applicable statutory requirements. Accounting records and other books shall be retained for a period of not less than seven years. Proper record keeping includes maintaining records to support credit ratings prepared by the CRA.
- 2.40 A CRA shall have detailed whistle-blower policies encouraging all employees to report (with complete confidentiality) any unethical practice or grave misconduct to a designated authority within the CRA. All reported events shall be taken seriously and investigated promptly in accordance with its policies and procedures. The investigation report shall be prepared within a stipulated time frame (as specified by the CRA) from the receipt of the complaint. There shall be provisions to prevent discrimination, retaliation, or harassment against any whistle-blower or participant in the investigation process.
- 2.41 To ensure proper governance of the CRA, the CRA shall ensure that all its dealings and transactions with its rating holding company or holding company, commercial in nature or otherwise, are periodically reviewed by its independent directors who should ensure that such dealings and transactions are undertaken in a fair and justifiable manner, and are made in the best interest of the CRA and its shareholders.

## **IX. Confidentiality of Information**

- 2.42 A CRA and its staff shall maintain the confidentiality of the information obtained from its clients in accordance with the confidentiality provisions or agreements entered into with its clients and shall not disclose the same to any other person, except where such disclosure is permitted by or under any law for the time being in force and the disclosure is made to the SC.

2.43 A CRA shall establish, maintain and implement written policies, controls and procedures to prevent the misuse of non-public information and to take steps to monitor if these procedures are followed.

**X. Fit and proper requirements**

2.44 The CRA and its rating holding company shall ensure that every person who is, or is to be their director, chief executive, deputy chief executive and member of rating committee of the CRA shall be a fit and proper person. The CRA and its rating holding company shall submit to the SC for approval prior to any nomination for appointment or reappointment of the positions below in their respective entity:

- (a) Directors;
- (b) Chief executive;
- (c) Deputy chief executive; and
- (d) External members of rating committee of the CRA.

For this purpose, the CRA and its rating holding company shall cause each candidate to submit a copy of his or her resume and declaration (as per Appendix 4) to the SC. The SC would also review the fit and properness of these persons from time to time after the registration of the CRA.

For the purposes of this sub-paragraph, "director", "chief executive", and "deputy chief executive" includes any person occupying the position or performing the functions of director, chief executive and deputy chief executive by whatever name called and the terms "chief executive", "director" and "officer" shall have the meaning assigned under subsection 2(1) of the *Capital Markets and Services Act 2007*.

2.45 In determining whether a person is fit and proper to hold the position in subparagraph 2.44 in a CRA and its rating holding company, the SC would consider the following:

- (a) His or her integrity, diligence, length of service, competence and soundness of judgment of fulfilling the responsibilities of that position;
- (b) Whether the interest of customers, if any, of the CRA is likely to be in any way threatened by his or her holding that position as well as to the previous conduct and activities in business or financial matters of the person in question; and
- (c) Relevant feedback from other sources as may be deemed appropriate by the SC.

2.46 With regards to the length of service as provided in sub-paragraph 2.45 (a) above, a CRA and its rating holding company shall ensure that none of their directors and

external members of the rating committee serves more than two terms of service, with each term not exceeding four years.

**XI. Adoption of the International Organisation of Securities Commission's Code of Conduct Fundamentals for Credit Rating Agencies (IOSCO CRA Code)**

2.47 Unless already provided in these Guidelines, a CRA shall adopt all the requirements in the IOSCO CRA Code into its own code of conduct and disclose it on its website.

2.48 Where the CRA's Code of Conduct differs in substance from the provision of the IOSCO CRA Code (other than those provisions required in these Guidelines), the CRA shall explain where and why these differences exist, and fully disclose them on its website.

**3.0 REGISTRATION PROCEDURE**

**I. Registration**

3.1 To be registered as a CRA by the SC, an applicant and its rating holding company (where applicable) are required to submit the following information and documents in its application to the SC in both hard and soft copy:

(a) Corporate information and information pertaining to the operations of the CRA and its rating holding company (as set out in the registration application in Appendix 5); and

(b) Declaration that the CRA would comply with all the requirements provided in these Guidelines (as set out in Appendix 6).

3.2 In considering the application made under sub-paragraph 3.1 the SC would take into account whether the applicant or its rating holding company or any of their directors, chief executive or controller—

(a) has been convicted, whether within or outside Malaysia, of an offence involving fraud or other dishonesty or violence or the conviction of which involved a finding that it or he acted fraudulently or dishonestly;

(b) has been convicted of an offence under the securities laws;

(c) has contravened any provision made by or under any written law appearing to the SC to be enacted for protecting members of the public against financial loss due to dishonesty, incompetence or malpractice by persons concerned in the provision of financial services or the management of companies;

- (d) has engaged in any business practices appearing to the SC to be deceitful or oppressive or otherwise improper (whether unlawful or not) or which otherwise reflect discredit on its or his method of conducting business;
  - (e) has engaged in or has been associated with any other business practices or otherwise conducted itself or himself in such a way as to cast doubt on its or his competence and soundness of judgment; or
  - (f) is an undischarged bankrupt whether within or outside Malaysia.
- 3.3 The SC may require the applicant and its holding company to furnish any further information or clarification as the SC considers necessary, for the purpose of considering the application.
- 3.4 To complete a registration of CRA under these Guidelines, the SC will use its best endeavour to approve or reject, as the case may be, the registration application of the CRA not later than three months upon the full receipt of documents and information.
- 3.5 The SC may at any time impose any additional terms and conditions deemed appropriate on the CRA or its holding company.
- 3.6 The SC may vary any requirement set out in these Guidelines on an applicant intending to or permitted by the SC to carry on limited activities of rating bond issues in Malaysia.

## **II. Transitional arrangements for existing CRAs recognised under the Practice Note**

- 3.7 CRAs which have been previously recognised by the SC under the Practice Note are allowed to continue their activities for a period of six months from the date these Guidelines take effect subject to any terms and conditions as may be imposed by the SC.
- 3.8 The SC may register the CRA referred to in paragraph 3.7 provided that the following requirements are met:
- (a) The CRA and its rating holding company shall submit the information and documents as required in sub-paragraph 3.1 to the SC;
  - (b) The CRA and its rating holding company, where applicable shall comply with the additional registration criteria as set out by the SC;
  - (c) The said submission and full compliance with the Guidelines shall have been satisfied by the CRA; and



- (d) The CRA shall have formally accepted the approval granted by the SC in registering the entity.

### **III. Submission to the SC**

- 3.9 All submissions and correspondences with the SC in relation to the application should be addressed to:

Chairman  
Securities Commission of Malaysia  
3 Persiaran Bukit Kiara  
Bukit Kiara  
50490 Kuala Lumpur

### **4.0 CONTINUOUS COMPLIANCE AND REPORTING REQUIREMENTS**

- 4.1 A CRA and its rating holding company, where applicable, shall at all times undertake to comply with the following requirements for the purposes of maintaining its registration as a CRA:

- (a) All the requirements stated in these Guidelines; and
- (b) Any additional terms and conditions as may be specified by the SC from time to time.

- 4.2 Subsequent to its registration, a CRA shall submit the following information to the SC (in hard and soft copy):

On annual basis,

- (a) changes of any information provided in the registration application in Appendix 5;
- (b) its latest audited financial statements, as soon as reasonably possible but not more than six months after the close of each financial year;
- (c) an annual time-table on the proposed yearly credit review for the next calendar year, to be submitted to the SC not later than 14 working days before the end of each calendar year (Appendix 7 Table A);
- (d) a list of all ancillary services provided throughout the year, which include relevant information relating to the customer, income received and nature of the services;

On semi-annual basis,

- (e) a semi-annual report that it has fully complied with the requirements as stipulated by the SC in these Guidelines and if not, a list of events of noncompliance with the Guidelines, as soon as reasonably possible but not more than two months after the close of the first and second half of each financial year;
- (f) a semi-annual staff training schedule to be submitted to the SC not later than one month after the close of the first and second half of each financial year (Appendix 7 Table B);

On quarterly basis,

- (g) a quarterly report showing movement of its key personnel and rating analysts, to be submitted to the SC not later than 14 working days after the end of each quarter;
- (h) a quarterly report on all credit rating review published at each quarter to be submitted to the SC not later than 14 working days after the end of each quarter;
- (i) a quarterly report on list of all entities on rating watch and subsequent rating actions to be submitted to the SC not later than 14 working days after the end of each quarter;

Ongoing basis,

- (j) a written explanation to the SC, including any remedial actions taken on its rating policies, rating process and rating analysts, within 14 working days after the occurrence of the following events:
  - (i) sharp downgrade which results in a credit rating being lowered by three notches or more in a single rating action;
  - (ii) any rating action within six months after an initial rating has been assigned; or
  - (iii) frequent rating action where credit rating for a particular issue or issuer is changed more than once within a period of six months;
- (k) where there is an occurrence of any event which would trigger the activation or execution of the business continuity plan, in such form and manner as may be specified by the SC; and
- (l) any other relevant information or documents as may be required by the SC.

- 4.3 A CRA shall ensure that the following tables are published in its website within five working days after its submission of the documents to the SC:
- (a) An annual time-table on the proposed yearly credit review for the next calendar year (Appendix 7 Table A);
  - (b) A quarterly report on credit rating review published at each quarter; and
  - (c) A quarterly report on list of all entities on rating watch and subsequent rating actions at each quarter.
- 4.4 Besides a CRA, a rating holding company of a CRA is required to comply with the reporting requirements provided in sub-paragraphs 4.2 (a), (b), (d), (e), (g), (k) and (l). Compliance of these requirements shall be undertaken by the executive director of the CRA, or any director appointed by the rating holding company.
- 4.5 The SC would formally review the registration of a CRA every two years after first registration is made by the SC. In its review, the SC would take into account the performance of the CRA and the compliance record of the CRA and its rating holding company during the period under review and may take such action as it deems fit to address the findings in the review. In this regard, the CRA or rating holding company shall comply with such action.
- 4.6 All correspondences with the SC in relation to the continuous compliance, reporting requirements and any other matter specified in these Guidelines should be addressed to:
- Executive Director  
Market Supervision  
Securities Commission of Malaysia  
3 Persiaran Bukit Kiara  
Bukit Kiara  
50490 Kuala Lumpur
- 4.7 A soft copy of all documents to be submitted to the SC under these Guidelines shall be addressed to [DS@seccom.com.my](mailto:DS@seccom.com.my).

## **5.0 ACTIONS ON NON-COMPLIANCE**

- 5.1 Notwithstanding sub-paragraph 4.5, in the event of a breach of any requirement stipulated in these Guidelines, the SC may take the following action(s):
- (a) Issue a directive to the CRA;
  - (b) Issue a reprimand to the CRA;
  - (c) Impose a fine on CRA;
  - (d) Limit or suspend the rating business of the CRA;
  - (e) Remove any director, key personnel or member of its rating committee of the CRA who are responsible for the breach;
  - (f) Withdraw or suspend the registered person status of the CRA; or
  - (g) Any other actions as it deems necessary to maintain integrity in the rating process of the CRA.
- 5.2 The SC may also withdraw or suspend the registered person status of CRA on the following grounds:
- (a) The CRA or its controllers commits an act under sub-paragraph 3.2 (a), (b), (c), (d), (e), or (f);
  - (b) The CRA or its holding company contravenes any term or condition imposed by the SC;
  - (c) The CRA or its holding company does not comply with or any directives issued by the SC;
  - (d) The CRA or its rating holding company refuses to adhere to the action imposed by the SC under sub-paragraph 4.5.
- 5.3 Prior to instituting any action as provided under sub-paragraphs 5.1 and 5.2, the SC shall provide an opportunity for the CRA to be heard.

**CRITERIA AND METHODOLOGIES TO BE DEVELOPED AND DISCLOSED  
BY CRA**

1. Rating watch and rating outlook – its meanings, usage, timeline before final rating actions
2. Rating monitoring – process and timeline for rating reviews
3. Use of corporate governance in rating decisions
4. Treatment of letter of support and letter of comfort
5. State Government guarantees
6. Federal Government guarantees
7. Methodology for bank-guaranteed issues
8. Rating of Government related entities
9. Methodology governing linkages between parent and subsidiary companies
10. Equity weight for hybrid capital of rated issuer
11. Methodology for Danajamin guaranteed papers
12. Correlation between short and long term rating scale
13. Approach to rating sukuk (Islamic bonds)
14. Methodology for foreign entities raising ringgit-denominated bonds
15. Treatment of guarantees from foreign parent
16. Criteria on subordinated loans and preferred debt by corporate and financial institutions
17. Business and financial risk matrix – relationship between financial ratios and business outlook for each rating category
18. Definition of default and how default rates are calculated

**RATING POLICIES TO BE DEVELOPED AND DISCLOSED BY CRA**

1. Rating withdrawal and suspension policy
2. Unsolicited rating policy
3. Rating fee guide for all products
4. Analyst rotation policy, if any
5. Rating appeal process
6. Rating announcement policy
7. Policy on treatment of confidential information
8. Policy on comments by issuer on press release and rationale
9. Whistle blower policy
10. Business continuity planning
11. Personal investment and trading policy

**LIST OF DEFAULTS BY RATING CATEGORY IN A FINANCIAL YEAR**

| <b>I. Long Term Scale</b>           |                       |                       |                               |                                |                                    |                           |
|-------------------------------------|-----------------------|-----------------------|-------------------------------|--------------------------------|------------------------------------|---------------------------|
| <b>No.</b>                          | <b>Name of Issuer</b> | <b>Initial Rating</b> | <b>Date of Initial Rating</b> | <b>Rating Prior to Default</b> | <b>Date of Default Recognition</b> | <b>Instruments Type *</b> |
| <b>Where initial rating is AAA,</b> |                       |                       |                               |                                |                                    |                           |
| <b>1.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>2.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>3.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>Where initial rating is AA,</b>  |                       |                       |                               |                                |                                    |                           |
| <b>1.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>2.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>3.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>Where initial rating is A,</b>   |                       |                       |                               |                                |                                    |                           |
| <b>1.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>2.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>3.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>Where initial rating is BBB,</b> |                       |                       |                               |                                |                                    |                           |
| <b>1.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>2.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>3.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>Where initial rating is BB,</b>  |                       |                       |                               |                                |                                    |                           |
| <b>1.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>2.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>3.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>Where initial rating is B,</b>   |                       |                       |                               |                                |                                    |                           |
| <b>1.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>2.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>3.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>Where initial rating is C,</b>   |                       |                       |                               |                                |                                    |                           |
| <b>1.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>2.</b>                           |                       |                       |                               |                                |                                    |                           |
| <b>3.</b>                           |                       |                       |                               |                                |                                    |                           |

\* To indicate sukuk, asset-backed securities or plain vanilla bonds, where applicable

Date:

The Chairman  
Securities Commission Malaysia

Dear Sir/Madam,

**DECLARATION FOR NOMINATION AS [ ] OF [CRA/RATING HOLDING COMPANY OF CRA] PURSUANT TO THE GUIDELINES ON REGISTRATION OF CREDIT RATING AGENCIES (GUIDELINES)**

I declare to the best of my knowledge that:

- (a) I am not an undischarged bankrupt, that there is no bankruptcy petition pending against me and further, that I have not commenced negotiations with any party with a view to rescheduling all or any of my indebtedness to that party;
- (b) I have not received any inquiries or subject to any investigation made against me by any government or regulatory body, either within or outside Malaysia; and
- (c) I have not been convicted or charged with any offence under the securities laws, corporation laws or other laws involving fraud or dishonesty in a court of law within or outside Malaysia, for the last ten years prior to this submission.

I declare to the best of my knowledge that there is no false or misleading statement contained in, or material omission in, any document that I have provided to the Securities Commission.

And I also declare that I will continuously exercise my integrity, diligence, competence and soundness of judgment in fulfilling my responsibilities for this position in compliance with the requirements as stipulated in the Guidelines.

The above Declaration has been signed by me pursuant to my nomination as ...(name of the position) of ...(name of CRA/rating holding company of CRA)...

Yours faithfully,

.....  
Name:



**APPLICATION FOR REGISTRATION OF CREDIT RATING AGENCY**

**1. Corporate Information**

- (a) Name of company :
- (b) Date of incorporation :
- (c) Date of commencement of operations (if applicable) :
- (d) Company number :
- (e) Authorised Capital :
- (f) Paid-Up Capital :
- (g) Shareholders' funds :
- (h) Financial Year End :

**2. Address and Contact Details**

- (a) Registered Address :
- (b) Business Address :
- (c) Telephone Number :
- (d) Fax Number :
- (e) Website address :
- (f) Name and telephone : number of contact person

**3. Shareholders**

| <b>Name of shareholder</b> | <b>Percentage of Shareholding</b> |
|----------------------------|-----------------------------------|
|                            |                                   |
|                            |                                   |
|                            |                                   |
| <b>Total</b>               |                                   |

**4. Directors**

| <b>Name of Director</b> | <b>Status</b><br>(Please indicate independent or non-independent status as well as Chairman of the Board. Also indicate if director has executive status) | <b>Directorship in all other companies</b> |
|-------------------------|---|--|
|                         |   |  |
|                         |   |  |
|                         |   |  |

**5. Senior Management (including CEO, chief operating officer, chief rating officers and portfolio heads) and Compliance Officer(s)**

| <b>Name of Personnel</b> | <b>Position</b> | <b>Qualification &amp; Experience</b> | <b>Name of Spouse &amp; Employment Details</b> | <b>Directorship (for employee &amp; spouse), if any</b> |
|--------------------------|-----------------|---------------------------------------|--|---|
|                          |                 |                                       |  |   |
|                          |                 |                                       |  |   |
|                          |                 |                                       |  |   |
|                          |                 |                                       |  |   |
|                          |                 |                                       |  |   |

**6. Rating Committee (please provide separate table for external and internal rating committees)**

| <b>Name of Member</b> | <b>Name of Spouse &amp; Employment Details</b> | <b>Directorship (for member &amp; spouse)</b> |
|-----------------------|--|---|
|                       |  |   |
|                       |  |   |
|                       |  |   |
|                       |  |   |
|                       |  |   |

**7. Corporate and organisational structure**

**8. A copy of its Code of Conduct and statement of compliance and noncompliance with the IOSCO CRA Code**

**9. Details of all rating criteria, methodologies, policies and process**

**11. Details of rating monitoring process**

**12. Any other relevant information to support the application**

Note: A rating holding company of a CRA is only required to submit information in items 1-5, 7 and 12 above.

Date: ...(Date of Application)...

The Chairman  
Securities Commission Malaysia

Dear Sir/Madam,

**DECLARATION PURSUANT TO THE APPLICATION FOR REGISTRATION AS A  
CREDIT RATING AGENCY**

We declare to the best of our knowledge that there is no false or misleading statement contained in, or material omission from, the information that is provided to the Securities Commission Malaysia (SC) in relation to the above application.

We declare that we are satisfied after having made all reasonable enquiries that:

- (a) this application is in full compliance with the *Guidelines on the Registration of Credit Rating Agencies* (Guidelines); and
- (b) we have not been convicted or charged with any offence under the securities laws, corporation laws or other laws involving fraud or dishonesty in a court of law, for the last 10 years prior to this submission.

We declare that we will ensure continuous compliance with the requirements stipulated in the Guidelines and to the terms and conditions as may be imposed by the SC in relation to the above application.

We agree to provide to the SC any information as the SC may require in relation to the application and from time to time after the registration.

The above Declaration has been signed by me as ...(designation of director)... of the Applicant pursuant to the authority granted to me by a resolution of the Board of Directors on ...(date of resolution)...

Yours faithfully,

.....

Name:

Name of Applicant:

**TABLE A**

| <b>TIME-TABLE FOR RATING REVIEWS</b> |                       |                                     |   |                |
|--------------------------------------|-----------------------|-------------------------------------|---|----------------|
| <b>Credit Rating Agency:</b>         |                       |                                     |   |                |
| <b>For Calendar Year:</b>            |                       |                                     |   |                |
| <b>Date of Submission:</b>           |                       |                                     |   |                |
| <b>No.</b>                           | <b>Name of Issuer</b> | <b>Issue Details/Description</b>    | <b>Expected Time for Rating Review Announcement</b> | <b>Remarks</b> |
| 1.                                   | ABC Sdn. Bhd.         | RM100m Fixed Rate<br>Unsecured Bond | June 2011   |                |
|                                      |                       |                                     |   |                |
|                                      |                       |                                     |   |                |
|                                      |                       |                                     |   |                |
|                                      |                       |                                     |   |                |
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|                                      |                       |                                     |   |                |
|                                      |                       |                                     |   |                |

Note: The input provided in this table is for illustration purposes only.

**TABLE B**

| <b>TRAINING PROGRAMMES ATTENDED BY STAFF OF CRA</b>  |               |                                |                           |                  |           |               |
|--|---------------|--------------------------------|---------------------------|------------------|-----------|---------------|
| <b>Credit Rating Agency:</b><br><b>Yearly Training Budget:</b><br><b>Date of Submission:</b><br><b>YTD Budget Utilisation:</b> |               |                                |                           |                  |           |               |
| No.  | Name of Staff | Designation and Department     | Training Attended         | Type of Training | Organiser | Date          |
| 1.   | XXX           | Senior Analyst/ Infrastructure | Advanced Corporate Credit | Workshop         | XYZ       | 6-10 May 2011 |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |
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|  |               |                                |                           |                  |           |               |
|  |               |                                |                           |                  |           |               |

Note: The input provided in this table is for illustration purposes only.