



**RESERVE
BANK**

O F N E W Z E A L A N D

Guidelines for credit rating agency approval for the non-bank deposit taker sector

Prudential Supervision Department

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1. **Approval guidelines**

- (1) This document sets out the Reserve Bank's guidelines in relation to the approval of rating agencies. These guidelines relate to the matters the Bank is required to take into account in deciding whether to approve a rating agency for the purposes of the Non-bank Deposit Takers Act 2013.
- (2) When making decisions in relation to the approval of a rating agency, the Reserve Bank considers how a rating agency or its activities compare to the guidelines in this document on:
 - (a) independence;
 - (b) resources;
 - (c) objectivity;
 - (d) third party access to ratings;
 - (e) disclosure;
 - (f) consistency and comparability; and
 - (g) credibility.

2. **Independence**

- (1) A rating agency should be independent and should conduct itself in a manner that supports its independence. It should have processes designed to prevent it from being subject to political or economic pressures that could influence a credit rating or its credit assessment processes.
- (2) A rating agency should have clear operational policies and procedures to identify and manage potential conflicts of interest, including between the credit rating activities of the rating agency and other interests of its shareholders or directors.
- (3) A rating agency should—
 - (a) have high standards of corporate governance that are effective in safeguarding the independence and integrity of its credit risk assessment processes;
 - (b) have periodic, rigorous and formal reviews that are independent of the business lines under review and that review—
 - (i) its methodologies and models; and
 - (ii) any significant changes to its methodologies and models;
 - (c) have firewalls separating its credit rating activities from any affiliated businesses to help prevent conflicts of interest; and
 - (d) adopt and adhere to a code of conduct that reflects market standards and internationally recognised principles.

3. Resources

- (1) A rating agency should have sufficient financial and human resources to carry out high quality credit assessments.
- (2) A rating agency should—
 - (a) be able to develop and maintain systems on an ongoing basis to produce timely, consistent and credible credit assessments and ratings;
 - (b) allocate a sufficient number of appropriately qualified and competent people to the analysis, review and approval processes for the production of ratings; and
 - (c) have sufficient resources to allow for regular substantive interaction with the subjects of its credit assessments.
- (3) A rating agency's financial viability should not depend upon a small number of clients.
- (4) Rating decisions should be made by a rating committee composed of adequately qualified and experienced individuals in accordance with the rating agency's methodologies.

4. Objectivity

- (1) A rating agency's assessment methodologies should be—
 - (a) documented;
 - (b) rigorous and systematic;
 - (c) applied consistently;
 - (d) where possible, validated by substantial historical experience;
 - (e) based on both qualitative and quantitative approaches; and
 - (f) subject to ongoing review.
- (2) A rating agency's assessment methodologies should, where possible, be established for a sufficient period of time to provide for them to be rigorously back-tested and refined to a high level of confidence.
- (3) The ratings produced by its assessment methodologies should—
 - (a) provide credible and consistent measures of credit risk;
 - (b) be responsive to changes in financial condition;
 - (c) be continuous (that is, not be point in time ratings); and
 - (d) be subject to ongoing review, including—
 - (i) after all significant events; and
 - (ii) at least annually.
- (4) Paragraphs (3)(c) and (3)(d) do not apply to a rating that is not subject to ongoing monitoring or surveillance if the rating clearly indicates that it is not subject to any ongoing monitoring or surveillance.

5. **Third party access to ratings**

- (1) A rating agency's publicly disseminated credit rating opinions, analysis, reports and similar or related products should be accessible on equivalent terms to persons who have a legitimate interest in them, regardless of the jurisdiction in which they operate.
- (2) A rating agency should not use unsolicited ratings to pressure the subjects of those ratings to obtain solicited ratings.
- (3) A rating agency should not prevent the subjects of its credit rating assessments from disseminating that subject's public credit ratings.

6. **Disclosure**

A rating agency should publicly disclose and maintain in a readily accessible form the following information:

- (a) its ownership and corporate structure;
- (b) its code of conduct;
- (c) its process for assigning, monitoring and changing its credit ratings;
- (d) definitions for each of its rating categories and rating modifiers, including:
 - (i) the definition of default;
 - (ii) the time horizons, where applicable; and
 - (iii) the full rating scale;
 (these definitions should be in a form that enables comparisons with ratings in other sectors and, to the extent possible, those produced by other rating agencies);
- (e) the actual default rates experienced in each rating category over time;
- (f) the probabilities associated with transitions between rating categories, (for example, the likelihood of AA ratings becoming A over time);
- (g) its policy on the release of ratings, including changes in ratings or rating modifiers; and
- (h) its policy on unsolicited ratings.

7. **Consistency and comparability**

- (1) Ratings should represent credit risk in a consistent and comparable manner with regard to established practices for ratings.
- (2) The nomenclature associated with ratings should be established with regard to existing practices and with particular regard to default rates.

8. **Credibility**

In addition to the extent to which credibility is supported by the other guidelines in this document, the Reserve Bank may have regard to other factors in assessing a rating agency's credibility including, for example, the extent to which its credit assessments and ratings are used in the market by participants such as issuers, investors, bankers, insurers, securities traders and other financial services regulators, or the extent to which a rating agency is recognised under other regulatory regimes.