

**KINGDOM OF SAUDI ARABIA**

**Capital Market Authority**

**CREDIT RATING AGENCIES REGULATIONS**

**English Translation of the Official Arabic Text  
Issued by the Board of the Capital Market Authority  
Pursuant to its Resolution Number [     ]  
Dated [     ] Corresponding to [     ]  
Based on the Capital Market Law  
Issued by Royal Decree No. M/30 dated 2/6/1424H**

**Arabic is the official language of the Capital Market Authority**

**Important Note: The current version of these Regulations, as may be amended, can be found at  
the Authority website: [www.cma.org.sa](http://www.cma.org.sa)**

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# CREDIT RATING AGENCIES REGULATIONS

## PART 1: PURPOSE AND SCOPE

### Article 1: Preliminary

The purpose of these Regulations is to regulate and monitor the conduct of rating activities in the Kingdom and to specify the procedures and conditions for obtaining an authorisation.

### Article 2: Definitions

- a. Any reference to the “Capital Market Law” in these Regulations shall mean the Capital Market Law issued by Royal Decree No. M/30 dated 2/6/1424H.
- b. Expressions and terms in these Regulations have the meaning which they bear in the Capital Market Law and in the Glossary of defined terms used in the Regulations and Rules of the Capital Market Authority, unless the contrary intention appears.

(The terms defined below shall be moved to the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority)

- **authorised credit rating agency:** a legal person which is incorporated, and authorised, in the Kingdom to carry out rating activities in accordance with the Credit Rating Agencies Regulations or an authorised foreign credit rating agency.
- **authorised foreign credit rating agency:** a foreign credit rating agency authorised to carry out rating activities in the Kingdom in accordance with the Credit Rating Agencies Regulations.
- **[close links:** in the Authorised Persons Regulations and the Credit Rating Agencies Regulations, means the relationship between an applicant for authorisation, authorised person or authorised credit rating agency and any of the following persons:
  - 1) a controller of that person;
  - 2) a company controlled by that person;
  - 3) a company controlled by a controller of that person; or
  - 4) a company controlled by any combination of the persons described in (1), (2) or (3) above.] **[NB: This is an amendment which needs to be made in the Glossary]**
- **credit rating:** an opinion regarding the creditworthiness of an entity, or the creditworthiness of a security expressed in symbols, letters, numbers or any other form.
- **Credit Rating Agencies Regulations:** the Credit Rating Agencies Regulations issued by the Board of the Capital Market Authority.
- **financial sector entity:** any of the following:
  - 1) banks;

- 2) authorised persons;
  - 3) legal persons engaged in the business of extending credit;
  - 4) insurance companies;
  - 5) affiliates of any of the above; or
  - 6) any other entity which the Authority determines should be included or treated as a financial sector entity.
- **foreign credit rating agency:** a credit rating agency incorporated in a jurisdiction other than the Kingdom.
  - **foreign regulator:** in relation to a foreign credit rating agency, its principal regulator in the jurisdiction of its incorporation and/or establishment.
  - **lead rating analyst:** a person with primary responsibility for producing a credit rating and for communicating with the rated entity or the issuer of the security which is rated or being rated.
  - **minimum authorisation requirements:** means in the Credit Rating Agency Regulations, the minimum authorisation requirements specified in Article 8, Article 9 and Article 10 (as applicable in the Credit Rating Agencies Regulations).
  - **rated entity:** a legal person whose creditworthiness is explicitly or implicitly rated or to be rated in the credit rating (including the issuer of the security to be rated), whether or not it has solicited that credit rating and whether or not it has provided information for that credit rating.
  - **rating activities:** any of the following: data and information gathering and analysis with a view to a credit rating; and the internal evaluation and approval and issue and review of a credit rating.
  - **rating analyst:** a person who performs analytical functions in connection with rating activities.
  - **rating category:** a rating symbol, such as a letter or numerical symbol which might be accompanied by appending identifying characters, used in a credit rating to provide a relative measure of risk to distinguish the different risk characteristics of the types of rated entities, securities or other assets.
  - **structured product:** a security or other asset resulting from a securitisation transaction or scheme or similar structure.

### Article 3: Scope

- a. These Regulations apply to rating activities which are carried out in the Kingdom.
- b. Rating activities are carried out in the Kingdom if such activity is conducted in whole or in part in the Kingdom and includes:
  - 1) dissemination of credit ratings to the public by any means or medium, whether in the Kingdom or elsewhere; or

- 2) distribution of credit ratings by way of subscription, membership and any other external parties for fees, whether in the Kingdom or elsewhere.
- c. A credit rating is excluded from the scope of these Regulations if it is issued by the government of the Kingdom or a governmental agency in the Kingdom.
- d. These Regulations do not apply to:
- 1) credit ratings issued by any person for its internal commercial or industrial purposes, including assessing credit-worthiness of its counterparties, provided that such credit rating is not circulated to any third party; or
  - 2) credit ratings issued by a financial sector entity for an internal purpose of assessing its economic capital position, internal modelling, or risk management, provided that such credit rating is not circulated to any third party, except to its regulator only.

#### **Article 4: Requirement for authorisation**

No person may carry out rating activities in the Kingdom or hold itself out as a credit rating agency unless it has been authorised by the Authority in accordance with these Regulations.

#### **Article 5: Waiver**

The Authority may waive a provision of these Regulations in whole or in part as it applies to an applicant for authorisation or an authorised credit rating agency either on an application from the applicant or the authorised credit rating agency or on its own initiative.

#### **Article 6: Right of appeal**

The applicant may appeal to the committee in respect of any decision or action that the Authority takes under these Regulations.

## **PART 2: AUTHORISATION AND MAINTENANCE OF AUTHORISATION**

### **Article 7: Application for authorisation**

- a. For the purposes of these Regulations, an applicant for authorisation means a legal person that is applying for authorisation to carry out rating activities in the Kingdom. An applicant for authorisation becomes subject to these Regulations from the date of submission of its application.
- b. An application for authorisation may be submitted by the founders or controlling shareholders of an applicant for authorisation if the applicant for authorisation is not yet established. The founders or controlling shareholders become subject to the provisions that apply to an applicant for authorisation from the date of submission of the application for authorisation.
- c. An application for authorisation must be made on the application form prescribed by the Authority and be accompanied by the information and documents required in Annex 1 of these Regulations.
- d. An applicant for authorisation must notify the Authority immediately of any material changes to the information provided to the Authority for the purposes of application for authorisation.

### **Article 8: Minimum authorisation requirements**

- a. An applicant for authorisation must either be:
  - 1) incorporated in the Kingdom; or
  - 2) a branch in the Kingdom of an authorised foreign credit rating agency registered, or authorised (as applicable) in a jurisdiction whose regulatory standards and requirements are at least equivalent to those of the authority.
- b. For the purposes of paragraph (a)2) above, the Authority shall have the absolute discretion to assess whether the foreign regulator has regulatory standards and requirements at least equivalent to those of the Authority.
- c. An applicant for authorisation must demonstrate to the Authority that:
  - 1) it is fit and proper and has adequate expertise and resources to carry out rating activities;
  - 2) it has managerial expertise, financial systems, risk management policies and systems, technological resources, and operational procedures and systems that are sufficient to fulfil its business and regulatory obligations; and
  - 3) its governing body, rating analysts, employees and agents who will be involved in the applicant's rating activities have the necessary qualifications, skills, experience and integrity.
- d. In addition to the authorisation requirements stated in Article 9 and Article 10 of these Regulations, the Authority may stipulate additional authorisation requirements to be met by, or specific conditions or limitations to be applied to either all applicants for authorisation, or particular applicants or categories of applicants as it deems appropriate.

**Article 9: Additional authorisation requirements for applicants incorporated within the Kingdom**

An applicant for authorisation incorporated in the Kingdom must demonstrate to the Authority that:

- 1) any person with whom the applicant for authorisation has close links is of a satisfactory standard of integrity, regulatory status, business record and financial soundness, and such close links will not impair the effective supervision of the applicant, or its operations and compliance with these Regulations; and
- 2) it has paid up capital of not less than SR 400,000 or three months working capital (whichever is higher).

**Article 10: Additional authorisation requirements for foreign applicants**

An applicant for authorisation that is a foreign credit rating agency must confirm to the Authority that it has given notice to the relevant foreign regulator of its intention to establish a branch in the Kingdom, and it must also confirm to the Authority that by conducting rating activities in the Kingdom it will not violate any laws or regulations to which it is subject or any relevant requirements imposed by its foreign regulator.

**Article 11: Procedure and powers of the Authority in relation to an application for authorisation**

- a. In considering an application for authorisation, the Authority may:
  - 1) carry out any enquiries that it considers appropriate;
  - 2) require the applicant for authorisation, or its representative, to attend before the Authority to answer questions and explain any matter the Authority considers relevant to the application;
  - 3) require the applicant for authorisation to provide such additional information as the Authority considers appropriate within 30 days of the request; and
  - 4) verify any information furnished by the applicant for authorisation.
- b. The Authority may refuse to consider the application for authorisation where an applicant for authorisation has failed to provide information requested from it within the time requested.
- c. The Authority will, upon receipt of all information and documents required, notify the applicant for authorisation in writing of the same, and will take one of the following decisions within a maximum period of 30 days from the date of the notice:
  - 1) approve the application;
  - 2) approve the application subject to such conditions and limitations as it considers appropriate; or
  - 3) refuse the application, giving reasons.
- d. If the Authority resolves to authorise the applicant for authorisation, it will inform the applicant for authorisation of this in writing including any conditions and limitations that the Authority may consider appropriate.

- e. If the Authority resolves to refuse the application for authorisation, it will notify the applicant for authorisation in writing.
- f. The Authority may extend the period for assessment of an application for authorisation referred to in paragraph (c) of this Article if the applicant for authorisation intends to outsource any of its functions or requests a waiver in accordance with Article 5 of these Regulations.
- g. The applicant for authorisation must pay such fees as may be prescribed by the Authority.
- h. The Authority may stipulate additional minimum authorisation requirements to be met by, or specific conditions or limitations to be applied to either all applicants for authorisation or particular categories of applicants.

#### **Article 12: Withdrawal from business and cancellation of authorisation**

- a. An authorised credit rating agency that proposes to cease to carry out rating activities must notify the Authority in writing of the date on which it intends to cease to carry out rating activities and the reasons for the decision at least 45 days in advance of that date; or if such advance notice is not possible because cessation of business is caused by an external event of which the authorised credit rating agency was not aware, immediately on making a decision to cease carrying out rating activities.
- b. Where an authorised credit rating agency decides to cease carrying out rating activities, it must ensure that any existing business that is outstanding is properly completed or is transferred to another authorised credit rating agency.
- c. An authorised credit rating agency may request the cancellation of its authorisation, and must in this case submit a written request to the Authority not less than three months prior to the proposed date of the cancellation.
- d. A request to cancel an authorisation must include sufficient information concerning the circumstances of the cancellation.
- e. The Authority may refuse a request to cancel an authorisation, or postpone the date of the cancellation, if it considers that the maintenance of the authorisation is necessary to investigate any matter affecting the authorised credit rating agency.
- f. An authorised credit rating agency continues to be subject to the jurisdiction of the Authority in respect of any act or omission that occurred before the cancellation of its authorisation and for two years thereafter. If at any time during this period the Authority commences any enforcement investigation or proceedings, the authorised credit rating agency shall continue to be subject to the jurisdiction of the Authority until the end of the enforcement investigation or proceedings.

#### **Article 13: Revocation or suspension of authorisation**

- a. The Authority may revoke or suspend the authorised credit rating agency's authorisation, as appropriate, after giving it an opportunity for a hearing, where:
  - 1) the authorised credit rating agency does not carry out any rating activities for a period of 12 months, or 6 months following the date on which the authorised credit rating agency has ceased to carry out any rating activities after notification to the Authority in accordance with paragraph (a) of Article 12 of these Regulations;

- 2) the authorised credit rating agency fails to pay any fees imposed by the Authority under these Regulations;
  - 3) the authorised credit rating agency becomes insolvent, or, in the opinion of the Authority, there is a material risk of the authorised credit rating agency becoming insolvent;
  - 4) the authorised credit rating agency provides the Authority with false or misleading information or documents to obtain authorisation.
  - 5) the authorised credit rating agency, in the opinion of the Authority, no longer meets its minimum authorisation requirements;
  - 6) the authorised credit rating agency has violated the Capital Market Law or any of its Implementing Regulations;
  - 7) the authorised credit rating agency is subject to litigation which may materially affect its ability to carry out its rating activities; or
  - 8) in the opinion of the Authority, the revocation or suspension is necessary or desirable to protect the interests of issuers or investors in the Kingdom.
- b. Revocation or suspension of an authorised credit rating agency's authorisation under paragraph (a) of this Article shall take effect immediately following the giving of written notice by the Authority to the authorised credit rating agency.
- c. Where the Authority suspends an authorised credit rating agency's authorisation under this Article, it will notify the authorised credit rating agency within six months from the date of giving notice under paragraph (b) of this Article that the authorised credit rating agency's authorisation is either:
- 1) cancelled;
  - 2) suspended for a further period;
  - 3) reinstated on the same terms as before the suspension became effective; or
  - 4) reinstated subject to such further conditions or limitations as the Authority considers appropriate.

#### **Article 14: Fees**

The authorised credit rating agency must pay such fees as the Authority may prescribe.

### **PART 3: CONDUCT OF BUSINESS REQUIREMENTS**

#### **Article 15: General conduct of business requirements**

- a. An authorised credit rating agency must continue to meet the minimum authorisation requirements at all times.
- b. An authorised credit rating agency may not carry out any activities other than rating activities its authorised to conduct, and it may carry out activities ancillary to rating activities, which the authorised credit rating agency is able to demonstrate to the Authority that it do not create conflict of interest when provided in conjunction with rating activities.
- c. An authorised credit rating agency at all times must ensure that:
  - 1) it has sufficient resources to carrying out high-quality credit assessments and the monitoring and updating thereof;
  - 2) it has sufficient information to make a credit assessment and the information it uses in assigning a credit rating is of sufficient quality to support a credible rating;
  - 3) its credit ratings reflect all information known, and believed to be relevant, to the authorised credit rating agency, consistent with its published methodology; and
  - 4) if the credit rating involves a type of financial product presenting limited historical data, the authorised credit rating agency should make clear, in a prominent place, the limitations of the rating; and
  - 5) it complies, and its employees comply, with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.
- d. An authorised credit rating agency, its rating analysts, employees and any other natural person who is involved in rating activities of the authorised credit rating agency must deal fairly and honestly with the Authority, entities, investors and other users of credit ratings, other market participants, and the public.
- e. An authorised credit rating agency, its rating analysts, employees and any other natural person who is involved in rating activities of the authorised credit rating agency must use professional care.
- f. An authorised credit rating agency, its rating analysts, employees and any other natural person who is involved in rating activities of the authorised credit rating agency must use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the rated entity.
- g. An authorised credit rating agency must not issue a credit rating or other communication that contains misrepresentations or is otherwise misleading as to the general creditworthiness of a rated entity or the relevant security.
- h. The determination of the credit rating must be influenced only by factors relevant to the credit assessment.

## **Article 16: Conflicts of interest**

- a. An authorised credit rating agency must ensure that no conflict between its interest and the interest of any potential users of its credit ratings affects its rating activities.
- b. An authorised credit rating agency must implement complete operational and legal separation of its rating activities and rating analysts from any other businesses.
- c. An authorised credit rating agency must ensure that it identifies and discloses; and eliminates or manages any actual or potential conflicts of interest that may influence the opinions and analysis of its employees.
- d. An authorised credit rating agency is not required to disclose a conflict of interest if this information would constitute provision of inside information. In that instance the authorised credit rating agency must disclose to the Authority immediately and take all necessary steps to ensure that no conflict of interest between its interest and the interest of potential users of its credit ratings affects its rating activities.
- e. An authorised credit rating agency must adopt and disclose written internal procedures and mechanisms to identify, disclose and eliminate or manage any actual or potential conflicts of interest.
- f. An authorised credit rating agency's disclosure required under paragraphs (c), (d) and (e) of this Article must be complete, timely, clear, concise, specific and prominent.
- g. An authorised credit rating agency must not conduct any rating activity where:
  - 1) the rated entity, any of its affiliates, governing body, senior executives, rating analysts or any of their associates is an affiliate of the authorised credit rating agency, or any director or other manager within the authorised credit rating agency or a rating analyst which would be involved in rating activities for the relevant credit rating;
  - 2) the determination of the relevant credit rating would be affected by the existence of or potential for a business relationship between the authorised credit rating agency (or its affiliates) and the entity (or its affiliates) or any other party, or the non-existence of such a relationship;
  - 3) in determining the relevant credit rating the authorised credit rating agency would not be independent;
  - 4) it owns securities issued, guaranteed, or otherwise supported by the rated entity, other than holding in diversified investment funds;
  - 5) it owns securities of any entity that is an affiliate of a rated entity, the ownership of which may cause or may be generally perceived as causing a conflict of interest, other than holdings in diversified investment funds; or
  - 6) any of its employees or any other natural person who is involved in its rating activities has any business relationship with the rated entity or the rated entity's affiliates or a family relationship with any manager within the rated entity.

### **Article 17: Rating methodologies, models and key rating assumptions**

- a. An authorised credit agency must conduct rating activities using an established and defined ranking system of rating categories.
- b. An authorised credit rating agency must use rating categories and methodologies that are rigorous, systematic, and, where possible, result in ratings that can be subjected to objective validation based on its past experience.
- c. An authorised credit rating agency must ensure that it uses appropriate rating methodologies, rating categories, assumptions and models for determining credit ratings of structured products. Where due to the complexity or structure of a structured product or the lack of robust data about the assets underlying the structured product the authorised credit rating agency cannot determine a credible credit rating for the structured product, it must refrain from issuing a credit rating.
- d. When rating categories, rating methodologies, models or key rating assumptions used in rating activities are changed, an authorised credit rating agency must:
  - 1) immediately, using the same means of communication as used for the distribution of the affected credit ratings, disclose the likely scope of credit ratings to be affected;
  - 2) review the affected credit rating (both initial ratings and subsequent ratings) as soon as possible and no later than six months after the change, in the meantime placing those credit ratings under observation; and
  - 3) re-rate all credit ratings that have been based on those methodologies, models or key rating assumptions if, following the review, the overall combined effect of the changes affects those credit ratings.
- e. The authorised credit rating agency must base its credit ratings upon relevant information that is of quality and obtained from reliable sources.
- f. The ratings must be based on thorough analysis of all information obtained, or which should have been obtained, by the credit rating agency pursuant to (e) of this Article.

### **Article 18: Assignment of credit ratings**

- a. An authorised credit rating agency, its rating analysts, employees and any other natural person who is involved in rating activities of the authorised credit rating agency must not, either implicitly or explicitly, give any assurance or guarantee of a particular rating.
- b. An authorised credit rating agency must ensure that, in conducting rating activities, rating analysts involved in the rating activities use methodologies established by the credit rating agency and apply a given methodology in a consistent manner.
- c. An authorised credit rating agency must distribute an assigned rating simultaneously to all potential users as soon as reasonably possible.
- d. An authorised credit rating agency must file with the Authority a copy of each assigned rating together with the disclosures required under Article 21 of these Regulations at the same time as distributing the assigned ratings under this Article.
- e. Credit ratings must be assigned by the authorised credit rating agency only.

### **Article 19: Monitoring and updating of credit ratings**

Unless a credit rating clearly indicates that it is not subject to ongoing surveillance by the authorised credit rating agency responsible for the rating, an authorised credit rating agency must monitor and update all ratings on an ongoing basis by:

- 1) regularly reviewing the rated entity or the related security's creditworthiness;
- 2) initiating a review of the status of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action (including termination of a rating), consistent with the applicable rating methodology; and
- 3) updating on a timely basis the credit rating, as appropriate, based on the results of such review.

### **Article 20: Discontinued credit ratings**

- a. Where an authorised credit rating agency makes credit ratings available to the public, the authorised credit rating agency must publicly announce in a timely manner if such rating is discontinued.
- b. Where an authorised credit rating agency makes credit ratings available to its subscribers only, the authorised credit rating agency must announce in a timely manner to its subscribers if any such ratings are discontinued.
- c. Where an authorised credit rating agency makes a discontinued credit rating available to its subscribers or the public generally, the authorised credit rating agency must indicate the date the credit rating was last updated and the fact that the credit rating is no longer being updated.

### **Article 21: Disclosure requirements**

- a. An authorised credit rating agency must ensure that every credit rating is accompanied with a disclosure in the form set out in Annex 2.
- b. An authorised credit rating agency must disclose in timely manner to the public, on a non-selective basis and free of charge, any credit rating regarding publicly issued securities, or issuers of publicly issued securities, as well as any subsequent decisions to discontinue such a rating, if the rating action is based in whole or in part on non-public information.
- c. An authorised credit rating agency must make public and keep up-to-date the following information:
  - 1) a description of its actual and potential conflicts of interest;
  - 2) its policies and procedures adopted by the credit rating agency, including the policy concerning the publication of credit ratings, and other related communications, and its policy regarding credit ratings that are not requested by the rated entity or subscribers;
  - 3) the nature of its compensation arrangements with rated entities, including compensation arrangements with rated entities or related third parties that provide more than 10% of the annual revenue of an authorised credit rating agency and any compensation unrelated to rating services;

- 4) the methodologies, and descriptions of models and key rating;
  - 5) its policies for distributing credit ratings, reports and updates;
  - 6) assumptions used in its rating activities as well as material changes to those assumptions; and
  - 7) any material modification to its systems, resources or procedures.
- d. An authorised credit rating agency must submit a copy of the information listed in this Article to the Authority annually and inform the Authority of any material changes.
- e. An authorised credit rating agency must at least once every 6 months make public historical default rates of its rating categories, distinguishing between the main geographical areas and industry sectors of the entities and whether the default rates of these categories have changed over time.
- f. An authorised credit rating agency must make public annually, the following information:
- 1) a list of the largest 20 clients of the authorised credit rating agency by revenue generated from them; and
  - 2) a list of those clients of the authorised credit rating agency whose contribution to the growth rate in the generation of revenue of the authorised credit rating agency in the previous financial year exceeded the growth rate in the total revenues of the authorised credit rating agency in that year by a factor of more than 1.5 times. Any such client shall be included on the list only where, in that year, it accounted for more than 0.25 % of the total revenues of the authorised credit rating agency (including its total revenue at global level if any).
- g. An authorised credit rating agency must publish information required to be made public under these Regulations on the authorised credit rating agency's website in both Arabic and English.

#### **Article 22: Transparency report**

An authorised credit rating agency must annually make available on its website the following information:

- 1) an annual report on its compliance with these Regulations and other relevant regulations;
- 2) detailed information on legal structure and ownership of the authorised credit rating agency;
- 3) a description of the internal control mechanisms ensuring quality of the authorised credit rating agency's rating activities;
- 4) statistics on the allocation of the authorised credit rating agency's staff to new credit ratings, ongoing credit rating reviews, methodology or model appraisal and senior management;
- 5) a description of the record-keeping policy adopted by the authorised credit rating agency.

- 6) the outcome of the annual internal review of the authorised credit rating agency's independent compliance function;
- 7) a description of the authorised credit rating agency's management and rating analyst rotation policy;
- 8) financial information on the revenue of the authorised credit rating agency based on the fees from rating activities and other activities with a comprehensive description of each. In the case of an authorised foreign credit rating agency, this information should be based on revenues attributable to its rating activities in the Kingdom;
- 9) a governance statement, including details of the authorised credit rating agency's administrative or supervisory board and executive committee structures and terms of reference. In the case of an authorised foreign credit rating agency, this information should be limited to details of its branch management structures and key personnel and the reporting lines of those structures and personnel within the authorised foreign credit rating agency as a whole;
- 10) the authorised credit rating agency's policies for distribution ratings, reports and updates;
- 11) a description of any material changes to the authorised credit rating agency's systems, resources and procedures including but not limited to its code of conduct, conflict of interest policies;
- 12) audited financial statements and any information concerning the authorised credit rating agency's financial condition; and
- 13) a certification by the authorised credit rating agency's governing body that the transparency annual report, required according to this Article, is accurate and complete.

### **Article 23: Record keeping**

- a. An authorised credit rating agency must record and retain sufficient information about its rating activities to demonstrate compliance with these Regulations.
- b. An authorised credit rating agency must maintain internal records to support its credit ratings, reports and opinions for ten years.
- c. An authorised credit rating agency must maintain internal records of all significant risks to the independence of the rating activities, including those referred to in paragraph (g) of Article 26 of these Regulations for ten years.
- d. An authorised credit rating agency must maintain internal records relating to its rating analysts and employees and any other natural person who is involved in rating activities of the authorised credit rating agency in connection with their recruitment procedure, experience and qualifications for a period of ten years from the date on which the credit rating agency recruited the employee.
- e. Records made by or obtained by an authorised credit rating agency may be recorded in any form, but must be capable of reproduction in hard printed form.

- f. An authorised credit rating agency must keep copies of all information required to be made public under these Regulations on its premises and must ensure that members of the public can access this information free of charge and make copies of this information at a reasonable cost.
- g. All records required to be maintained by an authorised credit rating agency under the Capital Market Law and its Implementing Regulations must be available for inspection by the Authority. The Authority may inspect the records directly or through a person it appoints for that purpose.

DRAFT

## **PART 4: SYSTEM AND CONTROLS REQUIREMENTS**

### **Article 24: Organisational requirements**

- a. An authorised credit rating agency must have robust internal procedures, policies and controls necessary to ensure compliance with these Regulations,
- b. An authorised credit rating agency must establish an independent and effective compliance function department and must appoint a compliance officer for this purpose. The compliance function must monitor and report to the administrative or supervisory board of the authorised credit rating agency on compliance of the authorised credit rating agency and its rating analysts, employees and any other natural person who is involved in its rating activities with the authorised credit rating agency's obligations under these Regulations, and on other regulatory requirements, and compliance policies and procedures adopted by the authorised credit rating agency as prescribed in Article 26 of these Regulations (as applicable).
- c. An authorised credit rating agency must establish and implement a rigorous and formal review function made up of one or more senior managers for periodically reviewing and monitoring the credit rating agency's rating methodologies, rating categories, models and key rating assumptions and any material changes or modifications thereto as well as the appropriateness of those methodologies, categories, models and key rating assumptions when they are used or intended to be used for new types of rated entity or security. This function shall be independent of the business lines that are principally responsible for ratings and shall directly report to the members of the administrative or supervisory board referred to in Article 26 of these Regulations (as applicable).
- d. An authorised credit rating agency must establish a function within its organisation charged with communicating with market participants and the public about any questions, concerns or complaints that the authorised credit rating agency may receive and keeping the authorised credit rating agency's management informed of any such complaints.

### **Article 25: Fit and Proper**

An authorised credit rating agency must ensure that its rating analysts, employees and any other natural persons involved in carrying out rating activities who is involved in its rating activities:

- 1) possess adequate qualifications and professional experience to carry out their responsibilities, including appropriate technical knowledge and skills;
- 2) have probity and soundness of judgement commensurate with their positions;
- 3) exercise of appropriate due diligence and protect the interests of potential users of credit ratings while carrying out their responsibilities.
- 4) have not committed an offence involving fraud or dishonesty; and
- 5) have not contravened or broken any laws or regulations governing rating activities or aimed at protecting investors in rated entities or securities.

### **Article 26: Administrative or supervisory board**

- a. This Article applies to an authorised credit rating agency which is incorporated in the Kingdom.

- b. An authorised credit rating agency must have an administrative or supervisory board, which shall be responsible for ensuring compliance with these Regulations , other regulatory requirements, and compliance policies and procedures adopted by the authorised credit rating agency.
- c. An authorised credit rating agency must ensure that at least one third, but no less than two, of the members of its administrative or supervisory board are independent and are not involved in rating activities. A member of an administrative or supervisory board is considered to be independent only if he is, and during the preceding two years was, free of any business, family or other relationship, with the credit rating agency, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgement.
- d. The compensation of independent members of the administrative or supervisory board must not be linked to the business performance of the authorised credit rating agency and must be arranged so as to ensure their independence.
- e. The term of office of the independent members of the administrative or supervisory board must be for a pre-agreed fixed period not exceeding five years and must not be renewable. The dismissal of independent members of the administrative or supervisory board must take place only in case of misconduct or professional underperformance.
- f. The majority of members of the administrative or supervisory board of an authorised credit rating agency, including all of its independent members, must have sufficient expertise in appropriate areas of related financial services. If the authorised credit rating agency issues credit ratings of structured products, at least one independent member and one other member of the board must have in-depth knowledge and experience at a senior level of the markets in structured products.
- g. In addition to the overall responsibility of the administrative or supervisory board, the independent members of the administrative or supervisory board shall monitor:
  - 1) the development of the credit rating policy and of the methodologies used by the authorised credit rating agency in its rating activities;
  - 2) the effectiveness of the internal quality control system of the authorised credit rating agency in relation to its rating activities;
  - 3) the effectiveness of measures and procedures instituted to ensure that any conflicts of interest are identified, eliminated or managed and disclosed; and
  - 4) the compliance and governance processes, including the efficiency of the review function referred to under paragraph (c) of Article 24 of these Regulations.
- h. Opinions of the independent members of administrative or supervisory board issued on the matters referred to under paragraph (g) of this Article must be presented to the administrative or supervisory board periodically and must be made available to the Authority on request.

#### **Article 27: Remuneration of rating analysts, employees involved in rating activities**

- a. An authorised credit rating agency must not evaluate or determine the remuneration of its rating analysts and employees directly involved in rating activities on the basis of the amount of revenue that the authorised credit rating agency derives from entities that the relevant rating analyst or employee rates or with which the rating analyst or employee regularly interacts.

- b. An authorised credit rating agency must conduct formal and periodic reviews of compensation policies and practices for its rating analysts and other employees who participate in or who might otherwise have an effect on its rating activities to ensure that these policies and practices do not compromise the objectivity of the authorised credit rating agency's rating activities.

**Article 28: Professional ethics**

- a. An authorised credit rating agency must take all reasonable steps to structure its credit rating teams to ensure continuity of personnel involved and avoid bias in rating activities.
- b. An authorised credit rating agency must take all reasonable steps to ensure the compliance of its rating analysts, employees and any other natural person who is involved in its rating activities with these Regulations.
- c. Rating analysts and employees of the authorised credit rating agency and any other natural person who is involved in rating activities must:
  - 1) take all reasonable measures to protect all property and records belonging to or in possession of the authorised credit rating agency from fraud, theft or misuse;
  - 2) not engage in transactions in securities (other than investing in diversified investment funds) when:
    - (A) the relevant security is issued, guaranteed, or otherwise supported by any rated entity within their area of primary analytical responsibility;
    - (B) they possess confidential information concerning the issuer of such security; or
    - (C) such transactions otherwise present conflicts of interest with the authorised credit rating agency's rating activities;
  - 3) not disclose any information about rating opinions or possible future rating actions of the credit rating agency, except to the rated entity in question or its designated agents;
  - 4) not share confidential information entrusted to the authorised credit rating agency with any person, including within the authorised credit rating agency, except where the disclosure is necessary for the purposes of the authorised credit rating agency's rating activities;
  - 5) not use confidential information for the purpose of trading securities, or for any other purpose except the conduct of the authorised credit rating agency's business;
  - 6) not solicit money, gifts or favours from anyone with whom the authorised credit rating agency does business or contemplates doing business and must not accept gifts offered in the form of cash or any gifts exceeding a minimal monetary value as prescribed by the authorised credit rating agency.
  - 7) comply with the internal securities trading policies maintained by the credit rating agency, and at least annually certify their compliance as required by such policies.

- d. No rating analyst, employee of the authorised credit rating agency or any other natural person involved in its rating activities may be involved in rating activities or may participate in or otherwise influence the determination of the authorised credit rating agency's rating of any particular entity or security if he:
- 1) owns, or is aware that any relative of his owns, securities issued, guaranteed, or otherwise supported by the rated entity, other than holdings in diversified investment funds;
  - 2) owns, or is aware that any relative of his owns, securities of any entity that is an affiliate of a rated entity, the ownership of which may cause or may be generally perceived as causing a conflict of interest, other than holdings in diversified investment funds;
  - 3) has had an employment, business or any other relationship with the rated entity or with any of its affiliates within the last 5 years that may cause or may be generally perceived as causing a conflict of interest; or
  - 4) has a family relationship with any manager within the rated entity.
- e. No rating analyst or employee of the authorised credit rating agency involved in rating activities may be allowed to initiate, or participate in, discussions regarding fees or payments with any rated entity.
- f. No rating analyst or employee of the authorised credit rating agency involved in rating activities may be allowed to participate in making proposals or recommendations regarding the design of structured products that the authorised credit rating agency rates.
- g. Any rating analyst or employee of the authorised credit rating agency involved in rating activities who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest must be required to disclose such relationship to the compliance officer of the authorised credit rating agency, as determined by the authorised credit rating agency's compliance policies and procedures.

#### **Article 29: Professional misconduct**

- a. Any rating analyst or employee of an authorised credit rating agency must, upon becoming aware that a rating analyst or employee of the authorised credit rating agency is, or has, engaged in conduct that is illegal, unethical or non-compliant with these Regulations, be required to report such information immediately to the compliance officer of the authorised credit rating agency, as appropriate and in accordance with the authorised credit rating agency's compliance policies and procedures.
- b. Any compliance officer of an authorised credit rating agency who receives the report mentioned in paragraph (a) of this Article is required to take appropriate action to ensure compliance with these Regulations on a continuous basis and the rules and guidelines set forth by the authorised credit rating agency. Illegal, unethical or non-compliant conduct which may materially impair the continuing compliance of the authorised credit rating agency with the conditions and obligations of its authorisation or its other obligations under the Capital Market Law and its Implementing Regulations, or the soundness or the continuity of its relevant services and activities must be reported to the Authority as soon as reasonably possible.

- c. An authorised credit rating agency's management is prohibited from retaliation against any rating analyst or employee who, in good faith, makes a report as stated in paragraph (a) of this Article.
- d. An authorised credit rating agency must ensure the conduct of an investigation on any report received in accordance with paragraph (a) of this Article, and as a result an appropriate disciplinary or other action be taken.
- e. An authorised credit rating agency must maintain records of the names of any rating analyst or other employee disciplined by an authorised credit rating agency and/or the Authority in connection with any breach of the Capital Market Law or its Implementing Regulations or any other conduct which may affect the conduct of the authorised credit rating agency's rating activities. The records must also include particulars of:
  - 1) the breach or conduct for which the rating analyst or the employee was disciplined; and
  - 2) the steps taken to discipline the rating analyst and the employee.

### **Article 30: Training**

- a. An authorised credit rating agency must establish a programme to ensure that its rating analysts and other employees are trained appropriately, including passing any examinations which may be required by the Authority.
- b. An authorised credit rating agency must at least annually organise training for its rating analysts and other relevant employees which includes compliance with the Capital Market Law and its Implementing Regulations and any other laws and regulations relevant to the authorised credit rating agency's rating activities.

### **Article 31: Recruitment and employment practices**

- a. An authorised credit rating agency must establish recruitment procedures to ensure that it recruits and employs rating analysts and employees who meet requirements under Article 25 of these Regulations.
- b. The authorised credit rating agency must organise reporting lines for its rating analysts and employees, and arrangements related to their compensation in a way that eliminates or effectively manage actual and potential conflicts of interest.
- c. An authorised credit rating agency must establish policies and procedures for reviewing the past work of rating analysts that leave the employ of the authorised credit rating agency and join an entity the rating analyst has been involved in rating, or a financial firm with which the rating analyst has had significant dealings as part of his duties at the authorised credit rating agency.

### **Article 32: Controllers**

- a. This Article shall apply to an authorised credit rating agency that is incorporated in the Kingdom.
- b. An authorised credit rating agency must notify the Authority, in such form as the Authority may prescribe, that a person is intending to become, or cease to be, a controller of the authorised credit rating agency:

- 1) at least 30 days in advance of the proposed effective date; or
  - 2) if such advance notice is not possible, immediately on the authorised credit rating agency becoming aware of such intention.
- c. An authorised credit rating agency must not permit any person to become or act as a controller unless the Authority has approved the controller in writing.
- d. A person who intends to become a controller of an authorised credit rating agency must notify the Authority of such intention at least 30 days in advance of the proposed effective date, and must provide the Authority with such information as the Authority requires to satisfy itself of its identity, integrity, regulatory status, business record and financial soundness.
- e. Before approving a controller the Authority must be satisfied that the person's control of the authorised credit rating agency will not impair the effective supervision of the authorised credit rating agency or its operations and compliance with the Capital Market Law and its Implementing Regulations.
- f. In considering any application submitted under this Article, the Authority has all of the powers set out in Article 11 of these Regulations.

### **Article 33: Outsourcing**

- a. In relation to an authorised foreign credit rating agency, this Article shall only apply insofar as it relates to the outsourcing of functions by or on behalf of its local branch established in accordance with these Regulations, and in relation to rating activities carried out in the Kingdom.
- b. An authorised credit rating agency may outsource any of its functions (other than those functions specified in paragraph (e) below) , provided that appropriate safeguards are put in place, including:
- 1) an assessment of whether the delegate is suitable to carry out the delegated function or task, taking into account the degree of responsibility involved;
  - 2) clear documentation of the extent and limits of any delegation;
  - 3) suitable arrangements to supervise the delegation, and to monitor the discharge of the delegate's functions or tasks;
  - 4) procedures for the taking of appropriate remedial action if any concern arises about the performance of the delegate's functions or tasks;
  - 5) exercise of appropriate due diligence in the selection of an external party to perform outsourced functions; and
  - 6) satisfaction on the part of the authorised credit rating agency that the outsourcing of any function by the authorised credit rating agency does not affect the authorised credit rating agency's compliance with these Regulations.
- c. The outsourcing of any function must not be undertaken in such a way as to impair materially the quality of the authorised credit rating agency's internal control and the ability of the Authority to supervise the authorised credit rating agency's compliance with obligations under the Capital Market Law and its Implementing Regulations.

- d. An authorised credit rating agency must give the Authority prior written notice of any arrangements for outsourcing, or of any material change to its existing outsourcing arrangements.
- e. The following functions may not be outsourced:
  - 1) rating activities;
  - 2) monitoring of a credit rating issued by the authorised credit rating agency.

#### **Article 34: Notification requirements**

- a. An authorised credit rating agency must notify the Authority in writing not less than 30 days before any change in:
  - 1) the name or registered name of the authorised credit rating agency or any trading name under which the authorised credit rating agency carries on rating activities in the Kingdom;
  - 2) the address of the head office of the authorised credit rating agency, or, if different, the address of the place for service of notices or documents; or
  - 3) the original or most recent business plan submitted by the authorised credit rating agency.
- b. An authorised credit rating agency must notify the Authority in writing within 7 days of the occurrence of any changes in the information originally submitted under the following headings:
  - 1) the branch in the Kingdom from which the authorised credit rating agency carries out rating activities;
  - 2) the countries outside the Kingdom in which the authorised credit rating agency carries on rating activities whether this is done through a branch office, a subsidiary or otherwise; and
  - 3) the contracts or arrangements for issuing ratings to clients, or outsourcing any of the authorised credit rating agency's functions (in each case as applicable to the authorised credit rating agency).
- c. An authorised credit rating agency must notify the Authority in writing immediately on the occurrence of any of the following:
  - 1) the presentation of a petition for the winding up of, or an insolvency or analogous event in relation to, the authorised credit rating agency or a company which is a subsidiary or controller of the authorised credit rating agency;
  - 2) the imposition of disciplinary measures or disciplinary sanctions on the authorised credit rating agency or a member of its group in relation to its rating activities by any regulatory authority;
  - 3) the conviction of the authorised credit rating agency, or any rating analyst or employee thereof, for any offence under legislation relating to rating activities or financial services, companies, insolvency, or for any offence involving fraud or any

- act involving dishonesty or a lack of integrity, or the imposition of any penalties for deliberate zakat or tax evasion;
- 4) the granting or refusal of any application for, or revocation of, authorisation to carry out rating activities in any country or territory outside the Kingdom;
  - 5) the appointment of inspectors by an official or regulatory authority to investigate the affairs of the authorised credit rating agency;
  - 6) a significant act of misconduct by the authorised credit rating agency, or any rating analyst or employee thereof;
  - 7) the resignation or dismissal of any of the registered persons, including full details of reasons in cases of dismissal;
  - 8) any matter which would be material to the requirements of the authorised credit rating agency or (in the case of an authorised credit rating agency incorporated in the Kingdom) of its controllers in accordance with the requirements under these Regulations; or
  - 9) any other matter which would be material to the Authority's supervision of the authorised credit rating agency.
- d. An authorised credit rating agency must inform the Authority immediately in writing of any material event or change in its business or operations.
- e. An authorised credit rating agency must give the Authority prior written notice, or where the event has occurred, written notice as soon as it becomes aware, of:
- 1) a proposed reorganisation or business expansion or other change that could have a material impact on the authorised credit rating agency's business, risk profile or resources, including, but not limited to, the following:
    - (A) setting up a new business within an authorised credit rating agency's group, or establishing a new branch;
    - (B) commencing the provision of cross border services into a new territory;
    - (C) commencing the provision of a new class of credit rating;
    - (D) sale or transfer of any material assets or parts of its business; or
    - (E) significantly reducing the scope of rating activities.
  - 2) any significant failure in the authorised credit rating agency's systems or monitoring procedures, including those reported to the authorised credit rating agency by the authorised credit rating agency's auditor; or
  - 3) in the case of an authorised credit rating agency incorporated in the Kingdom only, any event related to the authorised credit rating agency that results in a material change in its capital adequacy, including:

- (A) any action that would result in a material change in the authorised credit rating agency's financial resources or financial resources requirements under these Regulations;
  - (B) the payment of a special or unusual dividend or the repayment of share capital or a subordinated loan; or
  - (C) any significant losses, whether recognised or unrecognised.
- f. In the case of an authorised foreign credit rating agency, subparagraph 1 and 2 of paragraph (e) shall only apply insofar as material to the business, risk profile or resources of the branch.
- g. Upon receiving a notice under this Article, the Authority may:
- 1) require the authorised credit agency to provide any additional information that it considers necessary to properly assess that matter; and/or
  - 2) impose any conditions, restrictions or additional requirements on that authorised credit rating agency that it reasonably considers to be necessary to address a regulatory concern raised by any matter of which it is notified under this Article.

## **PART 5: REGISTERED PERSONS**

### **Article 35: Scope of Application**

This Part applies to authorised credit rating agencies, registered persons, applicants for registration and persons performing registrable functions.

### **Article 36: Registrable functions**

- a. The Authority shall prescribe the registrable functions.
- b. In the case of an authorised credit rating agency incorporated in the Kingdom, the following functions are considered functions that must be performed by registered persons:
  - 1) CEO or Managing Director;
  - 2) finance manager;
  - 3) a director or partner;
  - 4) compliance officer;
  - 5) lead rating analysts; and
  - 6) any other function designated by the Authority as a registrable function.
- c. In the case of an authorised foreign credit rating agency, the following functions are considered functions that must be performed by registered persons:
  - 1) branch Managing Director or Branch Manager;
  - 2) branch finance manager;
  - 3) branch compliance officer;
  - 4) lead rating analysts engaged in carrying out rating activities in the Kingdom; and
  - 5) any other function designated by the Authority as a registrable function.

### **Article 37: Performance of registrable functions**

- a. No person other than a registered person may perform a registrable function without the Authority's prior written consent.
- b. Every authorised credit rating agency must at all times have a person who is registered for each of the following functions:
  - 1) CEO, Managing Director or (in the case of an authorised foreign credit rating agency) branch Managing Director or Branch Manager;
  - 2) finance manager or (in the case of an authorised foreign credit rating agency) branch finance manager; and

- 3) compliance officer or (in the case of an authorised foreign credit rating agency) branch compliance officer.
- c. The Authority will not take action against an authorised credit rating agency for failure to comply with paragraph (b) of this Article where there is a temporary gap in the performance of the registrable functions, provided that the authorised credit rating agency actively seeks an appropriate substitute and notifies the Authority of another registered person who will temporarily take responsibility for that registrable function.
  - d. A person may perform more than one registrable function for an authorised credit rating agency, except that:
    - 1) the CEO, Managing Director or branch manager, finance manager or branch finance manager and compliance officer or branch compliance officer must be separate persons unless the Authority specifically approves another arrangement.
    - 2) the Compliance officer or branch compliance officer must not perform any other function.

#### **Article 38: Requirements for application for registration**

- a. An authorised credit rating agency must not apply for registration of a person to perform a registrable function without the consent of the relevant person.
- b. The application for registration must be made on the form prescribed by the Authority.
- c. An applicant for registration becomes subject to these Regulations from the date of submission of the application.
- d. An applicant for registration must have passed the qualification examinations required by the Authority, or secured an exemption from the Authority from such requirement.
- e. The Authority will specify the examination requirements associated with the registrable functions, together with guidance on eligible qualifications and criteria for any applicable exemption from the required examinations.
- f. The authorised credit rating agency must pay such fees as may be determined by the Authority.

#### **Article 39: Procedure and powers of the Authority in relation to an applicant for registration**

- a. In considering an application for registration, the Authority may take any of the following actions:
  - 1) carry out any enquiries which it considers appropriate;
  - 2) require the authorised credit rating agency or the applicant for registration to appear before the Authority to answer any questions and explain any matter it considers relevant to the application;
  - 3) require that additional information be provided;
  - 4) verify the accuracy of any information furnished by the applicant for registration;

- b. The Authority will aim to process an application for registration within 30 days of receiving all information and documents that it considers pertinent.
- c. The Authority may, after considering the application, take any of the following actions:
  - 1) approve the application for registration;
  - 2) approve the application for registration subject to such conditions as it considers appropriate;
  - 3) defer making a decision for such period as may be necessary to carry out further investigation or to allow for the provision of additional information; or
  - 4) refuse the application for registration, giving reasons.
- d. If the Authority resolves to register the applicant for registration, the Authority will add the applicant's name to the register of registered persons that the Authority shall maintain for this purpose and so inform the authorised credit rating agency.
- e. If the Authority resolves to reject the application, the Authority shall notify the authorised credit rating agency and the applicant for registration named in the application in writing.
- f. An applicant for registration must not perform the registrable function until he has been registered by the Authority.

#### **Article 40: Responsibilities of registered persons**

- a. A registered person must be resident in the Kingdom unless the Authority exempts him from this requirement.
- b. Without prejudice to paragraph (a) of Article 37 of these Regulations, this Article applies to any person performing a registrable function who is not registered.

#### **Article 41: Cancellation of registration**

- a. If a registered person's registration is cancelled, the authorised credit rating agency must ensure that the person immediately ceases to perform a registrable function.
- b. Within seven days of a registered person ceasing to carry on a registrable function or ceasing to be employed or associated with an authorised credit rating agency, the authorised credit rating agency must notify the Authority of that fact on the appropriate form. Upon receipt of the notice, the registration will be suspended, and the suspension shall remain in force until the Authority resolves any of the following:
  - 1) to agree to the termination of the registration;
  - 2) to consent to the person becoming employed by other authorised credit rating agency in a similar capacity; or
  - 3) to remove the person's name from the register of registered persons.
- c. A registered person who is removed from the register by the Authority has a right of appeal to the Committee.

- d. A registered person continues to be subject to the jurisdiction of the Authority in respect of any act or omission that occurred before the cancellation of his registration (or the remove of his name) and for two years thereafter. If at any time during this period the Authority commences any enforcement investigation or proceedings, the registered person shall continue to be subject to the jurisdiction of the Authority until the end of the enforcement investigation or proceedings.

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## **PART 6: CLOSING PROVISIONS**

### **Article 42: Publication and entry into force**

- a. These Regulations shall become effective upon their publication.

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## ANNEX 1

### INFORMATION AND DOCUMENTS REQUIRED FOR AUTHORISATION APPLICATION

The requirements set out below apply to all applicants for authorisation. An applicant which is a foreign credit rating agency should only submit information required below insofar as relevant to its local branch or its rating activities conducted in the Kingdom.

1. **Administrative or supervisory board and key senior management** – An applicant for authorisation incorporated in the Kingdom must submit information about the composition of its administrative or supervisory board, including the number of the independent directors. For an applicant for authorisation that is a foreign credit rating agency, the applicant must submit information about its branch management structures and key personnel and the reporting lines of those structures and personnel within the credit rating agency as a whole.
2. **Controllers** – An applicant must submit a list of all controllers of the applicant, and provide details of the identity, ownership (if applicable), integrity, regulatory status, business record and financial position of each proposed controller.
3. **Close Links** – An applicant for authorisation must submit a list of all persons that have, or are proposed to have, close links with the applicant, and provide details of the identity, ownership (if applicable), integrity, regulatory status, business record and financial position of each such person.
4. **Governing Body Resolution** – An applicant for authorisation must submit to the Authority a resolution of its governing body in the form prescribed by the Authority approving the application and its contents, and certifying the accuracy and completeness of the accompanying information and documents.
5. **Financial Statements** - An applicant for authorisation must submit financial statements prepared and accredited by the applicant's auditors and presented in the format prescribed by the Authority, and must:
  - 1) show the applicant's current and projected financial position, including its capital, financial resources, revenues and expenses as at the date of the financial statements, the proposed commencement of business, and the financial position 12 months after the date of commencement of business;
  - 2) provide supporting evidence of the capitalisation and resources of the applicant and the presumptions on which the statements have been provided.
6. **Registered Persons** – An applicant for authorisation must submit a list of each person who is to be a registered person and an application form for registration for each such person in the format prescribed by the Authority, including details of their qualifications and experience.
7. **Business Plan** – An applicant for authorisation must submit a business plan, setting out:
  - 1) a detailed description of the rating activities that the applicant proposes to undertake during, at least, the first 12 months after authorisation;
  - 2) a programme of business operations, including where the applicant's main business activities are proposed to be carried out and (where applicable) branches to be established;

- 3) classes of credit ratings in relation to which the application for authorisation is being made;
  - 4) a description of the nature of the proposed clients of the applicant in relation to each relevant class of credit ratings;
  - 5) whether the applicant intends to outsource any part of its rating activities to one or more third parties, and the identity of the third parties concerned;
  - 6) details of relevant capabilities on which the applicant will draw on to conduct rating activities, including experience of its management and affiliates;
  - 7) a feasibility study conducted by the applicant (including potential market share and financial projections to support the financial projections provided under paragraph 5 (1) above;
  - 8) details of proposed fee structures and distribution channels for credit ratings; and
  - 9) details of the number of personnel expected to be employed and the intended functions of such persons, with reference to the Organization Chart provided under paragraph (16) below.
  - 10) details of all jurisdictions other than the Kingdom in which it carries out or intends to carry out rating activities or distributes its credit ratings.
8. **Systems and Controls** – An applicant for authorisation must submit the following systems and controls documentation:
- 1) risk management policies and systems;
  - 2) compliance policies;
  - 3) compliance monitoring programme; and
  - 4) code of conduct.
9. **Operations Manual** – An applicant for authorisation must submit an operational procedures manual detailing the procedures and systems to be employed in relation to all material business and administrative operations, including the following:
- 1) rating activities;
  - 2) the provision of prudent and suitable advice and services to clients;
  - 3) reporting to clients; and
  - 4) complying with all record-keeping requirements.
10. **Fees** – An applicant for authorisation must submit a list of proposed fees, commissions, charges and other expenses payable by clients.
11. **Contracts** – An applicant for authorisation must submit agreements, arrangements and understandings with third parties to provide any material services or operations, including:

- 1) arrangements to offer products or services provided by, sponsored by, or associated with a third party;
  - 2) information technology, databases and computer systems;
  - 3) record-keeping;
  - 4) compliance services;
  - 5) audit services;
  - 6) outsourcing arrangements; and
  - 7) contracts for ancillary services.
12. **Methodologies and Rating Categories** - An applicant for authorisation must submit details of methodologies used to issue and review credit ratings, including any specific rating categories or methodologies used for structured products or other particular classes of credit ratings;
13. **Policies and procedures** - An applicant for authorisation must submit details of the following policies and procedures:
- 1) policies and procedures to identify, manage and disclose any conflicts of interests;
  - 2) policies and procedures for compensation and performance evaluation of rating analysts, persons responsible for compliance and other staff; and
  - 3) if the applicant intends to outsource any part of its rating activities, details of policies and procedures for ensuring compliance with Article 33 of these Regulations.
14. **Incorporation Documents** – An applicant for authorisation must submit a copy of its articles of association or by-laws, including (in the case of any applicant for authorisation that is a foreign credit rating agency) details on the establishment of the branch.
15. **Ownership Structure** – An applicant for authorisation must submit an ownership structure chart showing the group of which the applicant forms part, including (in the case of an applicant for authorisation incorporated in the Kingdom only) each controller and each person with whom the applicant has close links.
16. **Organisation Chart** – An applicant for authorisation must submit an organisation chart identifying the applicant's governing body, the CEO and senior management, the rating oversight function (demonstrating compliance with Article (24\c) of these Regulations) the lead rating analyst and rating analysts. The chart must outline the reporting lines of each department within the business.
17. **Business Continuity** – An applicant for authorisation must submit a copy of the applicant's business continuity plan.

## ANNEX 2

### STANDARD FORM CREDIT RATING DISCLOSURE

1. An authorised credit rating agency must ensure that every credit rating is accompanied with the following statement which must appear prominently:

"This is an opinion of [the name of the entity]'s ability to meet its debt obligations [under [the name of the security]], prepared by [the name of the authorised credit rating agency, its address and its regulatory status]. This credit rating is produced on the basis of [the name of the entity]'s past financial performance and current assets and liabilities [There might be other factors on the basis of which the credit rating is determined e.g. whether the debt is secured or not]. A credit rating does not guarantee the performance of the rated entity. A person should not rely on credit ratings for the purposes of making an investment decision. A person (other than a an authorised person or a bank) should consult an investment adviser."

2. An authorised credit rating agency must ensure that every credit rating is accompanied with the following information:

- 1) the name and job title of the related lead rating analyst in a clear and prominent manner.
- 2) the date when the credit rating was first released for distribution and when it was last updated;
- 3) the principal methodology or methodology version that was used in determining the credit rating including details of any significant adjustments and deviations and where a description of that methodology and a discussion of how the other methodologies and other important aspects factored into the credit rating decision can be found;
- 4) the assumptions and limitations of each credit assessment, and the extent to which the authorised credit rating agency verifies information provided to it by the rated entity;
- 5) a description of all material sources used to prepare the credit rating, including (if relevant) the rated entity and any related third party;
- 6) whether the credit rating was prepared on the basis of limited historical data;
- 7) whether the credit rating has been disclosed to that rated entity or its related third party and amended following that disclosure before being issued;
- 8) the meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions;
- 9) quantifiable historical information about the performance of the credit rating's rating opinions, organised, structured and standardised in such a way to assist investors in drawing performance comparisons between different credit rating agencies;
- 10) whether the credit rating concerns a newly issued security and whether the authorised credit rating agency is rating the security for the first time;

- 11) whether the rated entity participated in the rating activities carried out with respect to the credit rating; and
- 12) whether the credit rating was initiated at the request of the rated entity.

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