CENTRAL BANK OF TRINIDAD & TOBAGO

Guidelines for the Use of Credit Ratings

by Regulated Entities

May 2020

CONTENTS

1. INTRODUCTION

1.1 Internationally, credit ratings are an important element of the risk management frameworks of financial institutions. In particular, standards promoted by the Basel Committee for Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS) require financial institutions to use credit ratings for, *inter alia,* the determination of risk-based capital requirements.

1.2 Accordingly, the risk-based capital framework introduced for insurance companies pursuant to the Insurance Act[1] and the revised capital adequacy framework for bank and non-bank financial institutions[2] would both require the use of credit ratings. Credit ratings are also used by the Central Bank of Trinidad and Tobago (Central Bank) to determine exempt credit exposures for institutions licensed under the Financial Institutions Act Chap. 79: 09 (FIA)[3] and Insurance Act, 2018[4] (IA).

1.3 Given this reliance on credit ratings, it is important that credit rating agencies (CRAs) satisfy minimum standards to allow the recognition of their credit ratings for regulatory purposes.

2. DEFINITIONS

2.1 **"credit rating"** means an opinion or assessment of the creditworthiness of an entity, a credit commitment, a debt or debt-like security or an issuer of such obligations, expressed using an established and defined ranking system.

2.2 **"credit rating agency (CRA)"** means a company that issues credit ratings.

2.3 **"Central Bank"** means the Central Bank of Trinidad and Tobago.

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1 See the Insurance (Capital Adequacy) Regulations to be made under the Insurance Act, No. 4 of 2018 (IA). Since the Insurance Act, 2018 has not yet been proclaimed, this Guideline does not apply to insurers currently regulated under the Insurance Act, Chapter 84:01 until such time as that Act is repealed and replaced with the proclaimed Insurance Act, 2018.

2 The Financial Institutions (Capital Adequacy) Regulations, 2020

3 See Section 42(1)(b) of the Financial Institutions Act 2008

4 See Section 89(1)(b) and (e) of the Insurance Act 2018

2.4 **"derecognition"** means the process referred to in Part 8 of this Guideline by which a CRA and its credit ratings will no longer be approved by the Central Bank for use by regulated entities for regulatory purposes and "derecognized" shall be construed accordingly.

2.5 **"direct recognition"** means the recognition of a CRA by the Central Bank pursuant to paragraph 5.4 based on the Central Bank's detailed evaluation and assessment of the CRA in accordance with the eligibility criteria and based on the information provided by the CRA.

2.6 **"eligibility criteria"** means the criteria set out in paragraph 5.4.2of this Guideline.

2.7 "**equivalent supervisor"** means a local or foreign regulatory agency or body that applies comparable laws, rules and regulations to those of the Central Bank.

2.8 "**FIA**" means the Financial Institutions Act, 2008.

2.9 **"IA" means the Insurance Act, 2018**

2.10 **"indirect recognition"** means the recognition of a CRA by the Central Bank based on the recognition conferred by an equivalent supervisor.

2.11 **"issue"** means financial instruments including, but not limited to, bonds, asset backed securities, derivatives and repo-style transactions.

2.12 **"issuer"** means entities including but not limited to sovereigns, corporates, public sector entities and regulated entities.

2.13 **"market segment"** means the various classes of issues or issuers which are risk weighted or to which risk factors are applied for the purposes of determining risk based capital and other prudential requirements for regulated entities.

2.14 **"recognition"** means the approval or deeming of a CRA as one whose credit ratings are eligible for regulatory purposes in respect of one or more market segments and "recognized" or "recognize" shall be construed accordingly.

2.15 **"regulated entity"** means an institution licensed or registered by the Central Bank in accordance with the FIA, an insurance company registered by the Central Bank in

accordance with the IA or a financial holding company issued a permit under the FIA, or IA or other written law.

2.16 **"risk factor"** means a risk factor set out in the Insurance (Capital Adequacy) Regulations, 2020

2.17 **"risk weight"** means a risk weight set out in the Financial Institutions (Capital Adequacy) Regulations, 2020 and "risk weighted" shall be construed accordingly.

2.18 **"solicited credit rating"** means a credit rating made at the request of the issuer or regulated entity being rated.

2.19 "**unsolicited credit rating**" means a credit rating assigned for which there was no formal engagement or request by the issuer or regulated entity being rated.

3. PURPOSE OF THE GUIDELINE

3.1   This Guideline serves to provide:

    3.1.1   regulated entities and CRAs with guidance on the process to be followed if seeking recognition of a CRA by the Central Bank; and

    3.1.2   guidance on use of the credit ratings by regulated entities for regulatory purposes.

4. APPLICATION AND SCOPE

4.1   This Guideline applies to all:

    4.1.1   regulated entities that rely on credit ratings to determine risk based capital requirements[5], exemptions from credit exposure limits[6] or any other prudential requirement; and

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[5] See, for example, regulation 10(2) and Schedules 4, 5 and 8 of the Insurance (Capital Adequacy) Regulations and regulation 12(1)(e)(iii), and (iv), 12(3)(c) and (d) and Schedule 2 of The Financial Institutions (Capital Adequacy) Regulations 2020

[6] Refer to provisions in Section 42(1)(b) and (e) of the Financial Institutions Act, 2008, and Section 89(1)(b) and (e) of the Insurance Act, 2018

4.1.2 CRAs seeking to be recognized by the Central Bank so that their credit ratings could then be used by regulated entities for the purposes identified in (a) above.

4.2 It should be noted that the Central Bank will not recognize credit ratings from an unrecognized CRA for regulatory purposes[7]. **However, recognition of the CRA by the Central Bank does not constitute a licensing or supervisory regime for the CRA.**

5. RECOGNITION METHODS

5.1 Recognition of a CRA can occur in three ways, that is to say, through: a) direct recognition; b) indirect recognition; and c) automatic recognition. A CRA which is applying for either direct recognition or indirect recognition must submit to the Central Bank the list of documents detailed in Appendix 1 of this Guideline.

5.2 Where the Central Bank recognizes a CRA, irrespective of the method of recognition, it shall also make a determination on the appropriate mapping of its credit ratings to that of other recognized CRAs ("Equivalency Mapping") and shall specify in writing an Equivalency Mapping table for all recognized CRAs.

5.3 The Central Bank may from time to time amend the list of recognized CRAs and their Equivalency Mapping. Where this occurs, the Central Bank will amend the Equivalency Mapping table and take all necessary steps to inform regulated entities, including publishing the list of recognized CRAs and their Equivalency Mapping on the Central Bank's website.

5.4 DIRECT RECOGNITION

5.4.1 Unless a request for indirect recognition is made to the Central Bank, where a CRA has made an application to the Central Bank under Part 6 of this Guideline to be recognized for regulatory purposes, the Central Bank shall engage in a process of direct recognition.

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[7] A regulated entity may use the credit ratings of a CRA that is not recognized for purposes other than regulatory purposes, e.g. for information purposes or as ancillary to its risk management.

5.4.2   To be recognized, the Central Bank must be satisfied that a CRA meets the following eligibility criteria:

      i.   Objectivity;

      ii.   Independence;

      iii.   International Access/Transparency;

      iv.   Disclosure;

      v.   Resources; and

      vi.   Credibility.

5.4.3   Applications for direct recognition must be supported by appropriate documentation. A list of the documents required for direct recognition is detailed at Appendix 1. However, the Central Bank reserves the right to request additional information as necessary.

5.5   INDIRECT RECOGNITION

5.5.1   Where a CRA has made an application to the Central Bank under Part 6 of this Guideline to be recognized for regulatory purposes, the CRA may request indirect recognition.

5.5.2   The Central Bank may award indirect recognition where:

    a. recognition has been conferred by an equivalent supervisor and evidence of such recognition is provided to the Central Bank; and

    b. the CRA continues to adhere to the eligibility criteria.

5.5.3   Notwithstanding paragraphs 5.5.2 a) and b) above, the Central Bank may, at its sole discretion, choose direct recognition where it is not satisfied that the CRA is sufficiently well known or utilized. A list of the documents required for indirect recognition is detailed in Appendix 1.

5.6   AUTOMATIC RECOGNITION

5.6.1   The Central Bank may automatically recognize a CRA without carrying out its own recognition process[8] where a CRA is widely known and commonly used

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[8] Under automatic recognition, the Central Bank will automatically recognize select "nationally recognized statistical rating organizations" regulated by the United States Securities and Exchange Commission.

in a number of markets. This method will apply for a CRA that is used widely by local or foreign regulatory agencies or bodies in various jurisdictions.

5.6.2   For automatic recognition, there is no requirement for a CRA to submit an application for recognition to the Central Bank. However, where a CRA is conferred automatic recognition, the list of recognized CRAs and their Equivalency Mapping would be updated and regulated entities would be advised accordingly.

6.   APPLICATION AND RECOGNITION PROCESS

6.1   An application for direct or indirect recognition should be submitted directly to the Central Bank by a CRA which is desirous of offering its credit rating services to regulated entities for regulatory purposes.

6.2   Where a regulated entity is desirous of using the credit ratings of a particular CRA which is not yet recognized by the Central Bank for regulatory purposes, it may direct the CRA to make its application to the Central Bank in accordance with this Guideline.

6.3   A CRA seeking to be recognized must make its application in writing to the Central Bank, indicating the type of recognition being sought and must submit relevant supporting documents consistent with the type of recognition being sought in accordance with Appendix 1.

6.4   The Central Bank shall grant recognition to a CRA in one or more market segment(s), provided that the CRA meets the eligibility criteria for each market segment in which it intends to operate. In making its application referred to under this Part, the CRA shall provide adequate information in respect of the credit rating processes and methodologies for each market segment where processes and methodologies differ between them.

6.5   In response to the application, the Central Bank shall convey its decision in writing to the CRA, giving details of the market segments for which its credit ratings will be eligible for regulatory purposes.

6.6   Where a CRA is granted recognition by the Central Bank, notice of this shall be placed on the Central Bank's website.

6.7   The Central Bank shall also update its list of recognized CRAs. The list shall include a description of the market segments in respect of which each CRA is recognized.

6.8   RECOGNITION AT THE SUBSIDIARY AND GROUP LEVEL

6.8.1   A locally incorporated subsidiary of a CRA may be granted recognition based on the recognition of its parent CRA, provided that the parent CRA demonstrates that the subsidiary for which it is seeking recognition strictly adheres to the procedures and methodologies set up at the parent level for each market segment for which it is applying. Group-level recognition does not, however, extend to joint ventures or affiliates[9].

6.8.2   A subsidiary must seek direct recognition where it uses processes and rating methodologies that are different from those of the parent CRA. Furthermore, the credit rating methodology must be established for a minimum of three years before recognition is sought.

7.   ON-GOING REVIEW OF RECOGNIZED CRAS

7.1   The Central Bank may conduct annual reviews, monitor market events or employ any other mechanism necessary to ensure that a CRA that it has recognized continues to meet the eligibility criteria and, in particular, that its methodologies and credit ratings remain appropriate over time and through changes in market conditions.

8.   DERECOGNITION OF A CRA

8.1   A CRA which has been derecognized by an equivalent supervisor shall immediately inform the Central Bank of such derecognition.

8.2   The Central Bank may derecognize a CRA where it:
    1.   fails to satisfy the eligibility criteria on an on-going basis; and/or

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[9] As defined in the FIA and the IA

2. has been derecognized by an equivalent supervisor.

8.3   The Central Bank shall, by notice in writing, inform a CRA which it has granted direct recognition or indirect recognition of its intention to derecognize[10] it.

8.4   A CRA shall be allowed seven (7) business days, from the date of the notice of intention referred to under paragraph 8.3, to make representations to the Central Bank.

8.5   After due consideration of the representations made pursuant to paragraph 8.4, the Central Bank shall make a final decision with respect to derecognition of the CRA and shall inform the CRA of its final decision in writing within 20 business days of the date that the representations were made or such other period that is reasonable based on the circumstances.

8.6   Where the Central Bank has decided to derecognize a CRA in accordance with paragraph 8.5, it shall advise all regulated entities in writing and place a notice on its website.

8.7   Where the Central Bank wishes to derecognize a CRA which was granted automatic recognition, the Central Bank shall inform all regulated entities in writing of its decision and place a notice on its website. No notice of intention shall be issued.

8.8   Where regulated entities have been informed of the derecognition of a CRA under paragraphs 8.6 and 8.7, they shall cease to use the credit ratings of the CRA for regulatory purposes. Regulated entities shall also make the necessary adjustments to their capital adequacy and other prudential requirements within:
    i.   three (3) months from the date of the notice under paragraphs 8.6 and 8.7; or
    ii.   such other reasonable timeframe as stipulated by the Inspector.

8.9   Where regulated entities have been informed of the derecognition of a CRA under paragraphs 8.6 and 8.7, the regulated entity shall immediately examine the impact on its capital adequacy and other prudential requirements and, within ten (10) business days, submit a plan of action in writing to the Central Bank which describes how the regulated entity intends to remedy any adverse impact.

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[10] In this case the Central Bank will no longer recognize the ratings of the CRA for regulatory purposes.

9.   SUSPENSION OF A CRA

9.1   Prior to, or instead of derecognition, based on the grounds in paragraph 8.2, the Central Bank may opt to suspend the recognition of the CRA that has been granted direct recognition or indirect recognition.

9.2   The Central Bank shall, by notice in writing, inform a CRA of its intention to suspend.

9.3   Where the Central Bank has indicated its intention to suspend the CRA, the CRA shall be allowed seven (7) business days from the date of the notice of intention to make representations to the Central Bank.

9.4   After due consideration of the representations made, the Central Bank shall make a final decision with respect to the suspension of the CRA and shall inform the CRA of its final decision in writing within 20 business days of the date that the representations were made or such other period that is reasonable based on the circumstances.

9.5   Where the Central Bank has decided to suspend the CRA, it shall inform all regulated entities in writing and place a notice of the CRA's suspension on the Central Bank's website.

9.6   The Central Bank shall specify the period of suspension and shall outline the terms, conditions and the requirements to be satisfied by the CRA during the period of suspension in order to be reinstated as a recognized CRA

9.7   Where the CRA fails to adhere to the terms and conditions of the suspension or fails to satisfy the requirements stipulated, the Central Bank may extend the period of the suspension or derecognize the CRA.

9.8   Where the recognition of a CRA has been suspended, a regulated entity shall not use the credit ratings of the CRA in the determination of risk based capital, exemptions from credit exposure limits or any other prudential requirement for any new exposures booked during the period of the CRA's suspension.

10. CREDIT RATINGS AND RISK BASED CAPITAL REQUIREMENTS FOR REGULATED ENTITIES LICENSED UNDER THE FIA

THIS PART 10 APPLIES ONLY TO REGULATED ENTITIES WHICH ARE LICENSED OR PERMITTED UNDER THE FIA

10.1 OBLIGATIONS OF REGULATED ENTITIES

10.1.1 For the purposes of capital adequacy reporting, regulated entities must disclose to the Central Bank the CRAs that they propose to use for the risk weighting of their assets by type of claims as stipulated by the Central Bank from time to time.

10.1.2 Regulated entities must use the chosen CRAs and their ratings consistently for each type of claim, for both risk weighting and risk management purposes. Regulated entities will not be allowed to selectively choose or "cherry-pick" the credit ratings provided by different CRAs.

10.2 MAPPING PROCESS

10.2.1 The Central Bank will assign the credit ratings of recognized CRAs to the risk weights available under the credit risk weighting framework outlined in the Financial Institutions (Capital Adequacy) Regulations, 2020or related Guidelines, i.e. deciding which assessment categories correspond to which risk weights.

10.2.2 The mapping process would be objective and result in a risk weight assignment consistent with that of the level of credit risk reflected in the respective tables (for the respective risk weight category). It would cover the full spectrum of risk weights.

10.2.3 In conducting the mapping process, factors the Central Bank will consider include among other things the:
  i. size and scope of the pool of issuers that each CRA covers;
  ii. range and meaning of the credit ratings that it assigns; and
  iii. definition of default used by the CRA.

10.3 MULTIPLE CREDIT RATINGS

10.3.1 If there is only one credit rating by a CRA chosen by a regulated entity for a particular claim, that credit rating shall be used to determine the risk weight of the claim.

10.3.2 If there are two credit ratings by CRAs chosen by a regulated entity which map into different risk weights, the higher risk weight shall be applied.

10.3.3 If there are three or more credit ratings with different risk weights, the credit ratings corresponding to the two lowest risk weights shall be referred to and the higher of those two risk weights should be applied.

10.4 ISSUER VERSUS ISSUE CREDIT RATING

10.4.1 Where a regulated entity invests in a particular issue that has an issue-specific credit rating, the risk weight of the claim will be based on this credit rating.

10.4.2 Where the claim is an investment in an issue that has not been specifically rated by a recognized CRA, the following general principles will apply:

10.4.2.1 **Credit rating of a specific debt**: In circumstances where the borrower has a high quality credit rating[11] on a specific debt, and the unrated claim ranks *pari passu* or senior to claims with the high quality credit rating in all respects, then the high quality credit rating can also be applied to the unrated claim. If not, then the high quality credit rating cannot be used and unrated claims will receive the risk weight for unrated claims.

10.4.2.2 **Credit rating of the issuer**: In circumstances where the borrower has a high quality credit rating, this issuer credit rating may be applied only to senior claims on that issuer. Other unrated claims of a highly rated issuer will be treated as unrated.

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[11] A high quality credit rating is one with a risk weight lower than that which applies to an unrated claim.

10.4.2.3   If either the issuer or a single issue has a low quality credit rating (mapping into a risk weight equal to or higher than that which applies to unrated claims), an unrated claim on the same counterparty will be assigned the same risk weight as is applicable to the low quality credit rating.

10.4.3   Where regulated entities intend to rely on an issuer or an issue-specific credit rating, the credit rating must take into account and reflect the entire amount of credit risk exposure (principal and interest where applicable) that regulated entities have with regard to all payments owed to them.

10.4.4   In order to avoid any double counting of credit enhancement factors, no supervisory recognition of credit risk mitigation techniques will be taken into account if the credit enhancement is already reflected in the issue specific credit rating.

10.5   DOMESTIC CURRENCY AND FOREIGN CURRENCY CREDIT RATINGS

10.5.1   Where unrated exposures are risk weighted based on the rating of an equivalent exposure to that borrower, the general rule is that:

     i.   foreign currency credit ratings shall be used for exposures in foreign currency; and

     ii.   domestic currency credit ratings, if separate, shall only be used to risk weight claims denominated in the domestic currency.

10.6   LEVEL OF APPLICATION OF ASSESSMENT

10.6.1   External credit ratings for one entity within a corporate group cannot be used to risk weight other entities within the same group.

10.7   SOLICITED AND UNSOLICITED RATINGS

10.7.1   Regulated entities should use solicited credit ratings from recognized CRAs. Subject to the approval of the Central Bank, regulated entities may use unsolicited credit ratings in the same way as solicited, where it is determined that the assessments of unsolicited credit ratings are not inferior in quality to the general quality of solicited credit ratings.

10.7.2 The use of unsolicited credit ratings will only be allowed where there is no available solicited credit rating.

10.7.3 There may be the potential for CRAs to use unsolicited credit ratings to put pressure on entities to obtain solicited credit ratings. Where such behaviour is identified, the Central Bank will consider whether to continue recognizing such CRAs as eligible for capital adequacy purposes and other prudential requirements.

10.7.4 In addition, where there is evidence that unsolicited credit ratings of a CRA do not reflect the risks associated with an exposure, the Central Bank may direct regulated entities to discontinue the use of unsolicited credit ratings by the CRA.

10.8 SHORT TERM/LONG TERM CREDIT RATINGS

10.8.1 For risk-weighting purposes, all short-term credit ratings are deemed to be issue-specific. They can only be used to derive risk weights for claims arising from the rated facility.

10.8.2 Short-term credit ratings may only be used for short-term claims against banks and corporates[12].

10.8.3 In no event can a short-term credit rating be used to support a risk weight for an unrated long-term claim.

10.8.4 The Central Bank shall, from time to time, provide in writing a framework for exposures to specific short-term claims to regulated entities.

10.8.5 If a short-term rated claim attracts a 50% risk-weight, unrated short-term claims cannot attract a risk weight lower than 100%. If an issuer has a short-term facility with a credit rating that warrants a risk weight of 150%, all unrated claims, whether long-term or short-term, should also receive a 150% risk weight, unless the regulated entity uses recognized credit risk mitigation techniques for such claims.

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[12] Claims on banks and claims on corporates as defined in the Financial Institutions (Capital Adequacy) Regulations, 2020

10.8.6 Short term credit ratings are issue-specific and cannot be applied to other short-term claims, except under the following conditions:

10.8.6.1 All claims on banks of up to three months original maturity (short term claims), when there is no specific short-term claim credit rating, may be risk weighted one tier more favorably than the long term claim credit rating (subject to a 20% floor) as illustrated below:

S&P Credit Rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight of the Bank	20%	50%	50%	100%	150%	50%
Risk Weight for Short Term Claims	20%	20%	20%	50%	150%	20%

10.8.6.2 When there is a short-term credit rating and such credit rating maps into a risk weight that is more favourable (i.e. lower) or identical to that derived from the general preferential treatment, the short-term credit rating should be used for the specific claim only. Other short-term claims would benefit from the general preferential treatment.

10.8.6.3 Where there is a short-term credit rating and such credit rating maps into a risk weight that is more favourable (i.e. lower) or identical to that derived from the general preferential treatment, the short-term credit rating should be used for the specific claim only. Other short-term claims would benefit from the general preferential treatment.

10.8.6.4 When a specific short-term credit rating for a short term claim on a bank maps into a less favourable (higher) risk weight, the general short-term preferential treatment for interbank claims referred to in paragraph 10.8.6.1 above cannot be used. All unrated short-term claims should receive the same risk weighting as that implied by the specific short-term credit rating.

11. CREDIT RATINGS AND RISK BASED CAPITAL REQUIREMENTS FOR REGULATED ENTITIES LICENSED UNDER THE IA

THIS PART 11 APPLIES ONLY TO REGULATED ENTITIES WHICH ARE REGISTERED OR PERMITTED UNDER THE IA

11.1   OBLIGATIONS OF REGULATED ENTITIES

11.1.1   For the purposes of capital adequacy reporting, regulated entities must disclose to the Central Bank the CRAs that they propose to use for determining the appropriate risk factor for the type of asset at the end of the first quarter following the publication of this Guideline or on such dates or at such periods as stipulated by the Central Bank from time to time.

11.1.2   Regulated entities must use the chosen CRAs and their credit ratings consistently for each type of asset. Regulated entities will not be allowed to selectively choose or "cherry-pick" the credit ratings provided by different CRAs.

11.2   MULTIPLE CREDIT RATINGS

11.2.1   If there is only one credit rating by a CRA chosen by a regulated entity for a particular asset, that credit rating shall be used to determine the risk factor for the asset.

11.2.2   If there are two credit ratings by CRAs chosen by a regulated entity for a particular asset and these correspond to different risk factors, the highest risk factor shall be applied.

11.2.3   If there are three or more credit ratings by CRAs chosen by a regulated entity for a particular asset, the higher of the two lowest risk factors shall be applied.

11.3   ISSUER VERSUS ISSUE CREDIT RATINGS

11.3.1   Where a regulated entity invests in a particular issue that has an issue-specific credit rating, the risk factor of the asset will be based on this credit rating.

11.3.2 Where a bond or other evidence of indebtedness has not been specifically assessed by a CRA, the following will apply:

11.3.3.1 in circumstances where the issuer has been assessed by the chosen CRA, the credit rating of the issuer shall be used to determine the risk factor for the asset;

11.3.3.2 if the issuer has not been assessed by a recognized CRA, the unassessed issue will be treated as unrated.

11.3.3 Where regulated entities intend to rely on an issuer or an issue-specific credit rating, the credit rating must take into account and reflect the entire amount of asset default risk exposure (principal and interest where applicable) that regulated entities have with regard to all payments owed to them.

11.4 LEVEL OF APPLICATION OF ASSESSMENT

11.4.1 External credit ratings for one entity within a corporate group cannot be used to determine the asset default risk factor for other entities within the same group.

11.5 SOLICITED AND UNSOLICITED RATINGS

11.5.1 Regulated entities shall comply with the provisions under paragraph 10.7 of this Guideline.

APPENDIX I - APPLICATION REQUIREMENTS

The following provides information on the minimum requirements for a CRA to be considered for recognition. The Central Bank reserves the right to request additional information as it considers reasonable.

A. GENERAL INFORMATION

1. An applicant must provide the Central Bank with general information that will provide an overview of its business. This should include:

   a. the market segments for which the applicant is seeking recognition;

   b. the level of recognition the applicant is seeking (group or subsidiary level);

   c. the type of recognition the applicant is seeking (direct or indirect);

   d. the type of credit ratings provided;

   e. a list of jurisdictions where the applicant has been granted recognition;

   f. an overview of the legal structure of the applicant and the group to which it belongs, including ownership, major subsidiaries, ancillary or other services provided etc. The information on ownership should include a list of shareholders that hold 10% or more of the shares of the CRA.

2. Where available, the applicant should provide the Central Bank with a statement of compliance with the International Organization for Securities Commission (IOSCO) Code of Conduct Fundamentals for CRAs or similar market accepted standards (signed by the CEO and at least one other senior officer).

3. A proposed mapping of the ratings of the CRA to those of other recognized CRAs in Trinidad and Tobago.

B. SPECIFIC INFORMATION

Where a CRA is applying for **direct recognition** the following **additional** information must also be provided:

I. OBJECTIVITY

To demonstrate its compliance with the ***objectivity*** criterion, an applicant must provide:

   a. A description of the credit ratings methodology (including the ratings definition, definition of default and use of time horizons) and processes and how the methodology is determined, implemented and changed. This description should

include an overview of the processes in place to ensure the consistent application of the assessment methodologies across all credit ratings. In particular, the role of ratings committees and guidelines governing them and the extent of input from rated entities should be provided. Evidence should also be provided to show that the credit ratings methodology has been established for at least three (3) years.

b. A description of the core ratings process for each market segment. The description should include the inputs used to determine an entity's creditworthiness for each market segment for which the CRA is seeking recognition. These should include both quantitative inputs (e.g. key variables, data sources, assumptions and quantitative techniques used, extent of input from the rated entities) and qualitative inputs (e.g. the strategy, business plans of the rated entities)

c. A description of the back-testing methodology used to verify the accuracy, consistency and discriminatory power of the credit rating systems with details on results and conclusions generated by such analysis. Evidence that the back-testing has been up and running for at least one year is required.

d. A description of the processes in place to ensure that credit ratings are reviewed at least annually and every time an event impacts on the credit quality of a given obligor or issuer. The description should include an overview of the ratings reviews process, information such as main characteristics, scope, frequency, teams involved, main phases of the monitoring process, data updates, information from rated entities taken into accounts, automatic warning systems and mechanisms that allows systematic errors in credit ratings to feedback into potential changes in the credit rating methodology. A list of credit ratings reviewed and the results and outcomes thereof should also be provided.

e. A description of the internal compliance mechanism to ensure the consistent application of the credit ratings methodology.

II.   INDEPENDENCE

To demonstrate its compliance with the ***independence*** criterion, an applicant must provide the following:

a. A description of the procedures used to ensure fair and objective credit ratings, including mechanisms to identify, prevent, manage and eliminate actual and potential conflicts of interest.

b. A summary of major shareholders (i.e. those with 20% or more shareholding in the CRA)

c. A summary of major clients (i.e., the top 10 clients by revenue for the last two years).

d. An organizational chart.

e. A detailed profile of key executives.

f. A summary of executive committees (composition and accountability).

g. A summary of arrangements in place to separate the rating and non-rating business operations of the CRA.

h. A description of the rating committee(s) and a list of directors and staff involved therein.

i. An overview of the internal audit function, including reporting lines and/or any other means whereby the CRA ensures that internal procedures are implemented effectively.

j. A description of the main features of the applicant's internal code of conduct and a statement of how compliance with the code is monitored.

k. An overview of the applicant's remuneration policy.

l. Details of the applicant's fee policy.

m. A description of the policies in place where shareholders, subsidiaries, or other entities belonging to the group are rated.

III.   INTERNATIONAL ACCESS/ TRANSPARENCY AND DISCLOSURE

To demonstrate its compliance with the ***international access/transparency and disclosure*** criterion an applicant must provide the following:

a. A summary of its disclosure policy and procedures and evidence that the principles employed for determining credit ratings are available to all interested parties.

b. A summary of the ways used to make the credit ratings methodologies available and details of the terms of access to the credit ratings by the potential users.

c. A description of the transparency policy with regards to the types of credit ratings.

IV.   RESOURCES

To demonstrate its compliance with the ***resources*** criterion an applicant should provide the following:

a. A description of the source and amount of earnings including audited financial statements (at a minimum for the last three years).

b. Evidence that the CRA has the financial resources to invest in technological infrastructure.

c. Evidence that the CRA has the necessary quantitative techniques and models to analyze large quantity of data.

d. Evidence that the CRA has sufficient staff with the requisite skill to perform the tasks required. This should include an indication of the total number of employees together with details of their qualification and experience.

e. An overview of the process in place to ensure that members of the rating teams and rating committees have the relevant skills, including quantitative expertise, and experience in credit assessment and on-going training programmes for improving these requisite skills.

f. A description of the recruitment and training policy.

V.   *CREDIBILITY*

To demonstrate its compliance with the ***credibility*** criterion an applicant should provide the following:

a. Evidence to demonstrate market reliance on the credit ratings, such as market share, number of issuers, how long the CRA has been active in the market, the revenues generated by the rating activity or any other evidence.

b. A description of the internal procedures to deal with the misuse of confidential information.

C. SPECIFIC INFORMATION (INDIRECT RECOGNITION)

Where a CRA is applying for **indirect recognition**, the CRA is required to submit, in addition to information in Part A of this Guideline, evidence of recognition conferred by an equivalent supervisor.