

# CREDIT RATING AGENCIES

## REQUIREMENTS FOR THE APPROVAL AND REGISTRATION OF CREDIT RATING AGENCIES AS PER THE GUIDELINES ON CREDIT RATING AGENCIES

### 1. DOCUMENTS IN SUPPORT OF APPLICATION

Requirement	
1.	Certified copy of the Certificate of Incorporation of the applicant
2.	Certified Copy of the Certificate of Compliance from the Registrar of Companies (foreign applicant)
3.	Certified copy of the Memorandum and Articles of the applicant
4.	Code of Conduct of the Applicant
5.	Business Plan that includes resumes of the top management staff, management structure, brief on the rating methodology, rating grades, fee structure
6.	A sample of a standard agreement between the rating agency and its clients
7.	Draft sample "letter of requests" for rating accompanied by a draft of the "information requirements for rating securities".

### 2. COMPLIANCE WITH CREDIT RATING GUIDELINES

REQ.	ITEM	Y/N?	COMMENTS
<b>2.</b>	<b>Core Professional Capacity</b>		
2.1	The applicant must evidence its capacity to perform the role of a rating agency.		
2.2	Provide Evidence of experience as well as professional expertise to provide the service of rating agency.		
2.3	Must be in the process of appointing or have appointed professionals including economic, financial and research analysts, and other relevant quantitative and qualitative analysts who have relevant background in the rating business.		
<b>3</b>	<b>Objectivity and Independence</b>		
3.1	Demonstration of independence and objectivity.		
3.2	The applicant must not be associated directly or indirectly with group(s) who have conflicting interests in the area of the rating business.		
3.3	The applicant must demonstrate that it has a proven rating methodology.		
3.4	The rating process must have sufficient internal checks and balances to safeguard objectivity in particular where qualitative judgment also plays an important role in the rating process.		
3.5	The rating process must be based on quantitative and qualitative review of facts and must not rely on hearsay or rumors to downgrade or upgrade a particular issuer or issued financial instrument.		
<b>4.</b>	<b>Ownership</b>		

REQ.	ITEM	Y/N?	COMMENTS
4.1	Must be a body corporate with a predominance of an institutional shareholding of repute.		
4.2	Shareholders, board of directors, management and professional analytical staff should be persons of impeccable character.		
4.3	The applicant should be partly owned by an internationally recognized rating agency or have a contractual arrangement with an internationally recognized rating agency that provides technical and strategic support drawn from international experience		
4.4	An internationally recognized agency shall be a rating agency which has been in the business of providing credit ratings for debt securities or any securities of interest to investors, which obligates the issuer to pay back the principal amount raised, in more than two markets for at least five years.		
4.5	Any other criteria or basis used of determining the independence and integrity of a rating agency.		
<b>5.</b>	<b>Capital Requirements</b>		
	Stable financial base with a minimum paid up capital of Kshs. 12 million (or the equivalent)		
<b>6.</b>	<b>Disclosure of information by rating agency</b>		
	The applicant must disclose to the Authority, issuers and the general public the following:		
(i)	General fee structure or any change thereof		
(ii)	Downgrades of ratings		
(iii)	Disclosure of ratings of commercial paper or corporate bonds as applicable.		
<b>7.</b>	<b>Confidentiality</b>		
	A system to maintain on a confidential basis the information supplied strictly for the purpose of rating by issuers in order to safeguard and promote confidence in the rating process.		
<b>8.</b>	<b>Fit and Proper Test/ Due Diligence</b>		
	Complete CV		
	Complete Fit and Proper Forms		
	Certificate of Good Conduct		

### Compliance with the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (2008)

No.	Relevant provisions	Y/N	Comments
1.	Quality & Integrity of the Rating Process; <ul style="list-style-type: none"> <li>i. Quality of the Rating Process</li> <li>ii. Monitoring and Updating</li> <li>iii. Integrity of the Rating Process</li> </ul>		
2.	Independence & Avoidance of Conflict of Interest <ul style="list-style-type: none"> <li>i. General Provisions</li> <li>ii. CRA Procedures &amp; Policies</li> <li>iii. CRA Analyst and Employee Independence</li> </ul>		
3.	CRA Responsibility to the Investing public and Issuers <ul style="list-style-type: none"> <li>i. Transparency and timeliness of rating disclosure</li> <li>ii. The treatment of Confidential Information</li> </ul>		
4.	Disclosure of the Code of Conduct and Communication with market participants		