

Moody's Investors Service

Report on the
Code of Professional Conduct

February 2009



Moody's Investors Service

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I. Introduction and Background

A. Introduction

The Moody's Investors Service ("MIS") *Code of Professional Conduct* (the "Code" or the "MIS Code"), which MIS first adopted in June 2005, sets forth the overarching principles that guide MIS in its efforts to protect the integrity, objectivity and transparency of our credit rating process. Through the Code, MIS also seeks to promote fair treatment of investors and Issuers¹, to achieve global consistency, to safeguard confidential information produced by MIS or provided to us by Issuers, and to promote disclosure about our rating methodologies, policies, practices and overall track record. We believe these measures will enhance market understanding of, and confidence in, our Credit Ratings.

The MIS Code largely adopts the provisions of the Code of Conduct Fundamentals for Credit Rating Agencies promulgated by the International Organization of Securities Commissions as adopted in May 2008 (hereinafter, the "Revised IOSCO Code"). MIS endorses the Revised IOSCO Code and is committed to implementing it in our organization to the greatest extent feasible through the adoption of our own Code.

This Report is being issued pursuant to Section 4.2 of the MIS Code, which calls for us to report annually about our compliance with the MIS Code and to explain differences between the MIS Code and the Revised IOSCO Code. MIS issued the first Report on the Code of Professional Conduct in April 2006 (the "2006 Report") and the second in December 2007 (the "2007 Report"). It is our intention with this third Report on the Code (this "Report") to build upon the foundation laid in those previous efforts, and we will occasionally refer in this Report to our earlier Reports. In Section II of this Report, we explain the substantive changes to our Code. In Section III we describe enhancements to our methods for implementing the MIS Code and in Section IV we review the substantive differences between the MIS Code and the Revised IOSCO Code (as such term is defined below) and how we believe the Revised IOSCO Code objectives are otherwise met.

Other background information on our implementation of the MIS Code, including discussion of the policies, procedures and practices that we have in place to promote the above-stated objectives and compliance with the Code, is included in the 2007 Report. Both the 2007 Report and the 2006 Report remain available on the *Regulatory Affairs* page of our website, www.moody.com.

¹ Capitalized terms used but not defined in this report are intended to have the meaning provided in the Code.

B. Background about MIS

MIS is owned by Moody's Corporation ("MCO"), a New York Stock Exchange listed company. MIS is the oldest bond rating agency in the world, having introduced bond ratings in 1909. From its inception, MIS has focused on rating debt instruments and today, MIS publishes opinions on a broad range of credit obligors and credit obligations issued in markets around the world, including various corporate and governmental obligations, structured finance securities and commercial paper programs. MIS also publishes investor-oriented credit research, including in-depth research on major debt issuers, industry studies, special comments and credit opinion handbooks.

Our ratings and analysis are on debt covering more than 100 sovereign nations, 12,000 corporate Issuers, 29,000 public finance Issuers and 96,000 structured finance obligations. MIS employs approximately 1,500 people worldwide, including more than 1,200 Analysts, and we maintain or have affiliations with numerous offices around the globe, including in most of the world's major financial centers. Members of our analytical teams are situated throughout the world's major financial centers to handle our increasingly global operations, and to provide the flexibility needed for addressing national or region-specific issues.

Credit Ratings are MIS's current opinions of the relative future credit risk of entities, credit commitments or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit Ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings are not statements of current or historical fact. Credit Ratings do not constitute investment or financial advice, and Credit Ratings are not recommendations to purchase, sell, or hold particular securities. Credit Ratings are not a comment on the suitability of an investment for any particular investor. MIS issues its Credit Ratings with the expectation and understanding that investors will make their own studies and evaluations of the securities that they intend to buy, hold or sell.

MIS uses globally consistent rating symbols and definitions to communicate our rating opinions, and we have implemented policies and procedures to promote consistency in our overall rating methodologies and practices as well as global comparability in our Credit Ratings.²

² MIS's global corporate, financial institutions, sovereign and non-US sub-sovereign (collectively, "Fundamental"), and structured finance Credit Ratings use the same symbol system and are intended to convey comparable information with respect to the relative risk of expected credit loss. MIS's ratings on public finance securities issued in the US tax-exempt market use the same symbol system but are calibrated to less frequent historical default loss rates and thus are not intended to be compared directly to our other Credit Ratings. See Special Comment: Moody's US Municipal Bond Rating Scale, November 2002, which can be found at www.moody.com under the title "Moody's US Municipal Default Study."

II. Changes to the MIS Code

The financial markets changed rapidly and dramatically throughout 2008. MIS has taken a proactive stance with respect to the shifting landscape of the credit markets, embarking on a number of initiatives designed to enhance credit ratings performance, protect analytical independence and improve the transparency and usefulness to market participants of MIS's credit ratings. In addition, credit rating agencies have also received significant feedback from regulatory authorities³ and market participants⁴ during 2008 about the need for greater transparency in the credit rating process.

In response to the shifting landscape of the credit markets and this feedback from regulators and investors, MIS has implemented a number of initiatives designed to enhance credit ratings performance, protect analytical independence and improve the transparency and usefulness to market participants of MIS's credit ratings. Of particular relevance to this Report, MIS has published an updated version of the MIS Code on November 20, 2008 (the "2008 MIS Code"), which incorporates most of the Revised IOSCO Code.⁵

The 2008 MIS Code reflects revisions that are intended to clarify and enhance our policies and to better reflect our business practices. One important goal of the revisions is to improve the way we review our methodologies and models for deriving and monitoring our credit ratings. Thus, Sections 1.7, 1.10 and 1.11 of the 2008 MIS Code align with the Revised IOSCO Code toward that end. Our efforts to improve the way that we manage conflicts of interest and the use of confidential information are reflected in the revisions to Sections 2.5, 2.8(b), 2.11 and 2.17 of the 2008 MIS Code. And our efforts to improve the transparency and the timeliness of credit ratings disclosure are reflected in Sections 3.3, 3.6, 3.7 and 3.11 of the 2008 MIS Code. Each of the significant revisions in the 2008 MIS Code is discussed below.

³ The regulatory authorities include the Committee of European Securities Regulators ("CESR"), IOSCO and the U.S. Securities and Exchange Commission (the "SEC").

⁴ A series of industry task forces were assembled to assess the transparency and quality of credit ratings. Some of these task forces include those which were put in place by, among others, the Securities Industry and Financial Markets Association, the American Securitization Forum, the European Securitisation Forum and the Institute for International Finance.

⁵ In May 2008, the IOSCO Technical Committee published its report, "The Role of Credit Rating Agencies in Structured Finance Markets" (hereinafter the "Technical Committee Report"), which included a revised version of the IOSCO Code as an appendix.

Definitions — Credit Policy Group

October 2007 MIS Code	November 2008 MIS Code
<p>The Credit Policy Committee is the committee which formulates high level rating policies for each of the rating groups. The composition of the committee may change from time to time in response to changing conditions.</p>	<p>The Credit Policy Group is an internal group and is separate from the business lines that are principally responsible for rating various classes of Issuers and obligations. The Credit Policy Group is overseen by MIS's Chief Credit Officer, who is directly accountable to the CEO and Chief Operating Officer of MIS and reports quarterly to the MCO Board of Directors. The Credit Policy Group is responsible for conducting research on the performance of MIS Credit Ratings, reviewing and approving methodologies and models, and overseeing various internal credit committees that formulate high level rating policies and practices for each of the rating groups.</p>

In the 2007 edition of the MIS Code (the "[2007 MIS Code](#)"), the "Credit Policy Committee" was defined as the committee that was charged with formulating high level rating policies for the entire organization. Although the Credit Policy Committee has been largely independent of the revenue-generating aspects of MIS's business for a long time, MIS has enhanced this important function by creating the "Credit Policy Group," which has a clearer reporting line to the highest levels of corporate management. The goal in enhancing the independence of the Credit Policy Group is to more strongly enforce in the evaluation of credit concerns a decision-making process driven by methodology and performance issues rather than commercial considerations. In furtherance of this effort, the Credit Policy Group has been given expanded resources and responsibilities. Given these changes, the "Credit Policy Committee" definition in the 2007 MIS Code was deleted. In its place, the 2008 MIS Code contains a new definition for the "Credit Policy Group," which details the nature of this body's credit oversight and reporting lines as well as its responsibilities with respect to formulating and reviewing models and methodologies.

Section 1.11 — Separate Monitoring Groups in Structured Finance

October 2007 MIS Code	November 2008 MIS Code
(There was no corresponding MIS Code Section.)	Where practicable, MIS will use separate analytical teams for determining initial Credit Ratings and for subsequent monitoring of structured finance Credit Ratings. Each team will have the requisite level of experience and resources to perform their respective functions in a timely manner. MIS will also evaluate internal processes and market trends in order to maintain operational flexibility to allocate resources needed to monitor existing Credit Ratings and conduct reviews on a timely basis.

MIS first began separating the monitoring function in its structured finance group a number of years ago by establishing teams of Analysts who were specifically responsible to monitor commercial and residential mortgage-backed securities and CDOs. One reason for having separate teams for initial ratings and ongoing monitoring of credit ratings is that it allows for more efficient allocation of expertise between these two functions. Using dedicated teams for monitoring also provides a second point of view on the credit risk in a sector that is independent of the views of the original rating group. In addition, we believe that using different teams is a more efficient way for MIS to dedicate resources and enhances market confidence in monitoring activities.

MIS has now formalized its commitment to use separate monitoring teams, where practical, by incorporating the language in Section 1.9 of the Revised IOSCO Code into Section 1.11 of the 2008 MIS Code. In Section 1.11, MIS also commits to staffing its initial rating and monitoring teams with the requisite level of experience and resources to perform their functions in a timely manner and to evaluate internal processes and market trends to maintain operational flexibility so that the organization can allocate resources needed to monitor existing ratings and conduct reviews on a timely basis. The 2008 MIS Code as implemented also contains a firm commitment by MIS to use separate ratings and monitoring teams in the structured finance arena, where practical.

In furtherance of the principles reflected in Section 1.11 of the MIS Code, MIS recently reorganized the reporting lines of its structured finance rating and monitoring functions to emphasize objectivity. For example, MIS recently created a new Group Managing Director position with the title of Global Structured Finance Surveillance Coordinator to oversee structured finance monitoring operations around the world. The heads of monitoring in each business line report not only to the Group Managing Director or Senior Managing Director of the business line, but also to the Global Monitoring Coordinator.

Section 1.12 — Press Releases

October 2007 MIS Code (Section 1.10)	November 2008 MIS Code
In accordance with MIS's Published Rating Withdrawal Policy, MIS will announce via press release if it discontinues a public Credit Rating on an Issuer or obligation.	Moody's will publish a press release announcing if it discontinues a public Credit Rating on an Issuer or obligation, in accordance with MIS's published Rating Withdrawal Policy, except when the rating is withdrawn because the outstanding rated obligation has matured or the issuer has entered or been placed into bankruptcy, liquidation, or other forms of governmental administration.

In the 2007 MIS Code, MIS stated that it would announce via press release when it decided to discontinue a public Credit Rating on an issuer or an obligation in accordance with its published Rating Withdrawal Policy. The 2008 MIS Code has been revised to clarify that, consistent with its Rating Withdrawal Policy, MIS will not necessarily issue a press release when a rating is withdrawn due to the maturation or pay-off of the obligation or if the Issuer has entered into an insolvency proceeding or administrative proceeding.

Section 1.17 — Prohibition on Structuring of Structured Finance Transactions

October 2007 MIS Code	November 2008 MIS Code Section 1.17
(There was no corresponding MIS Code Section.)	MIS's Analysts are prohibited from making proposals or recommendations regarding the design of structured finance products for which MIS assigns ratings. Consistent with this prohibition, in assessing the credit risk of a structured finance transaction, Analysts may properly hold a series of discussions with an Issuer or its agents in order to: (1) understand and incorporate into their analysis the particular facts and features of the structured finance transaction, and any modification, as proposed by the issuer or its agents; and (2) explain to the Issuer or its agents the Credit Rating implications of MIS's methodologies as applied to the Issuers proposed facts and features.

In assessing the credit risk of a structured finance transaction, MIS Analysts may hold a number of discussions with an Issuer or its agents: (a) to understand and incorporate into their analysis the particular facts and features of the structured finance transaction in question, and any modification, as proposed by the Issuer or its agents; and (b) to explain to the Issuer or its

provisions of the IOSCO Code. While the IOSCO Code did not define “ancillary business operations,” MIS clarified its own practices in this area in the 2007 MIS Code by categorizing the various services provided by MIS and other MCO entities as follows: (a) “Credit Rating Services,” which are those products and services derived from the Credit Rating process; (b) “Ancillary Services,” which are those products and services provide by MIS that are related to, but not derived from, the Credit Rating Process; and (c) “Non-Rating Services,” which are products and services unrelated to the Credit Rating process. The 2007 MIS Code provided that MIS would separate operationally and legally its Credit Rating Services and Analysts from other businesses, including Non-Rating Services such as any consulting businesses that may present conflicts of interest. Moreover, with respect to Ancillary Services that do not necessarily present conflicts with Credit Rating Services, MIS agreed to institute procedures and mechanisms designed to reduce the likelihood that conflicts of interest will arise and appropriately manage those that do.

MIS has amended [Section 2.5](#) of the 2008 MIS Code to indicate that in accordance with MIS’s definition of Ancillary Services, MIS will identify those services that it considers to be Ancillary Services. MIS also has instituted a formal Separation Policy and accompanying guidelines that address the issues of physical separation, separation of information technology systems and firewall crossings, all of which it feels address concerns about the controls MIS maintains in this area.

Section 2.8(b) – Annual Net Billings from Single Issuers

October 2007 MIS Code (Section 2.8)	November 2008 MIS Code
(There was no corresponding MIS Code Section.)	(b) MIS will disclose if it receives 10 percent or more of its annual net billings from a single Issuer, originator, arranger or subscriber (including any affiliates of the Issuer, originator, arranger, or subscriber).

Section 2.8(b) of the IOSCO Code calls on credit rating agencies to disclose whether they receive ten percent (10%) or more of their annual revenue from a single issuer, originator, arranger, client or subscriber (including any affiliate of that issuer, originator, arranger, client or subscriber). In the US, MIS is obligated to disclose to the Securities and Exchange Commission (the “SEC”) its largest customers by the amount of net revenues, along with an explanation as to whether the net revenues are based on amounts received, billed or earned and the reasons for relying on the method selected. [Section 2.8\(b\)](#) of the 2008 MIS Code adopts this provision in substance, and MIS has implement Section 2.8(b) of the MIS Code in a manner consistent with the steps taken to comply with our obligations under the SEC’s rules. Thus, the 2008 MIS Code provides that MIS will report to IOSCO when ten percent (10%) or more of its annual net billings come from a single issuer, originator, arranger, client or subscriber (including any affiliate of that issuer, originator, arranger, client or subscriber).

Section 2.11(b) — Review of Compensation Policies for Analysts

October 2007 MIS Code	November 2008 MIS Code
(There was no corresponding MIS Code Section.)	(b) MIS will conduct formal and periodic reviews of compensation policies and practices for Employees who participate in, or who might otherwise have an effect on, the Credit Rating process to ensure that these policies and practices do not compromise the objectivity of the Credit Rating process

Section 2.11 of the IOSCO Code previously included principles about management of conflicts of interest and analyst compensation for rating agency employees. First, it required that reporting lines for employees and their compensation arrangements be organized to eliminate or effectively manage actual and potential conflicts of interest. In addition, it required that analysts should not be compensated based on the amount of revenue that the credit rating agency derives from issuers that the analyst rates or with whom that analyst regularly interacts. In the Technical Committee Report, IOSCO identified a related concern and proposed revisions, which were ultimately incorporated as Section 2.11(b) of the Revised IOSCO Code, to require credit rating agencies to conduct regular and formal reviews of compensation practices for employees who participate in or who might otherwise have an effect on the credit rating process to ensure that compensation policies and practices do not compromise the objectivity of the credit rating process. The 2008 MIS Code includes a substantively equivalent Section 2.11(b).

Section 2.17 — Analyst Look-Back Reviews

October 2007 MIS Code	November 2008 MIS Code
(There was no corresponding MIS Code Section.)	MIS will establish policies and procedures for reviewing, as appropriate, the past work of Analysts and other Employees who participate in the Credit Rating process that leave the employ of MIS and join an Issuer or a financial firm with which the Analyst or relevant Employee has had significant dealings as part of his or her duties at MIS.

The Technical Committee Report also called on credit rating agencies to establish policies and procedures for reviewing the past work of analysts that leave them to join issuers that they had rated or financial firms with which the analyst had significant dealings while employed by the credit rating agency. A corresponding Section 2.17 was added to the Revised IOSCO Code. The 2008 MIS Code also includes a similar provision. Where, however, the IOSCO Code only covered “analysts,” the corresponding Section 2.17 of the 2008 MIS Code broadens the scope of the provision by extending it to all MIS Employees, not just Analysts, who have been involved in the credit rating process. In conjunction with this new provision, the Credit Policy Group has established a series of steps that will be required whenever a look-back review might be

required. If MIS ascertains where the former MIS employee now works, then the look-back review will find out whether the former employee was a lead Analyst covering his or her new employer (either as the Issuer or as a key transaction party, such as an underwriter) during the six months prior to his or her departure from MIS. If the former MIS Employee was a lead Analyst covering his or her new employer during the six (6) months prior to his or her departure, then there will be a review of all credit ratings of the Issuer and of all credit ratings of transactions where the Issuer was a key transaction party during the six month look-back period.

Section 3.3 — Encourage Disclosure by Structured Finance Issuers

October 2007 MIS Code	November 2008 MIS Code
(There was no corresponding MIS Code Section.)	MIS will encourage structured finance Issuers and originators of structured finance products to publicly disclose all relevant information regarding these products.

MIS has been concerned about rating shopping for many years. The substance of Section 2.8(c) of the Revised IOSCO Code has been incorporated into the MIS Code as a new [Section 3.3](#) under the subsection entitled “Responsibilities to the Investing Public and Issuers.” MIS understands IOSCO’s concerns about rating shopping. MIS believes that rating shopping, in structured finance as well as other credit markets, is a harmful practice that can exacerbate the potential conflicts that credit rating agencies face as a result of being paid to provide credit ratings. We also believe, however, that it is inappropriate to impose a disclosure obligation on an entity, such as a credit rating agency, that cannot as a practical matter control the means by which it acquires the information that triggers that obligation. Instead, we believe that more extensive and widely-disseminated disclosure of information by Issuers relating to structured finance products may mitigate to some extent the adverse effects of rating shopping, e.g. by enabling investors to form their own opinions and facilitating unsolicited ratings.

Sections 3.6(a) and (b) — Identifying Previous Ratings Issued and Methodologies Used to Determine Ratings

October 2007 MIS Code (Section 3.5)	November 2008 MIS Code
<p>In each of its Credit Rating Announcements, MIS will reference the last associated Credit Rating, if any.</p>	<p>In each of its Credit Rating Announcements, MIS will:</p> <p>(a) include the date of the last associated Credit Rating Announcement, if any, and the principal action it announced; and</p> <p>(b) indicate the principal methodology version that was used in determining the Credit Rating and where a description of that methodology can be found. MIS will explain if a Credit Rating is based on more than one principal Methodology and if a review of only one methodology might cause financial market Professionals to overlook other important aspects of the Credit Rating. MIS will indicate where different methodologies and other important aspects factored into Credit Ratings can be found.</p>

In recognition of how important methodological transparency is to the financial markets, MIS committed in Section 3.5 of the 2007 MIS Code to publish in its Credit Rating Announcements the last associated credit rating, if any, and in Section 3.6, to provide information in its Credit Rating Announcements about its procedures and methodologies so that financial market professionals can better understand how credit rating assessments are made.

As discussed in greater detail in [Section III](#) below, [Sections 3.6\(a\)](#) and [\(b\)](#) of the 2008 MIS Code incorporate in substance the mandate of Section 3.3 of the Revised IOSCO Code. To promote compliance with the revised [Section 3.6](#), MIS has instituted a number of procedures concerning the information that must be included in its Credit Rating Announcements to identify the previous rating action.⁹

⁹ There are cases where fulfilling the requirements of the 2008 MIS Code as revised will create conflicts with law in certain jurisdictions, and with [Section 1.13](#) of the MIS Code itself, which requires MIS to observe local law as applicable. In particular, Credit Rating Announcements published in Argentina are required as a matter of local law to contain very specific items, and the law does not call for the inclusion of references to the date of the last credit rating action or the methodology used to determine the credit rating. Thus, MIS's operations in Argentina will be exempt from [Section 3.6](#). In addition, while the Structured Finance Group will not be providing information about credit rating affirmations in its Credit Rating Announcements, the Fundamental Ratings Group will include references to affirmations in its Credit Rating Announcements.

Section 3.7 — Information about Ratings

October 2007 MIS Code (Section 3.6)	November 2008 MIS Code
<p>MIS will publish sufficient information about its procedures, methodologies and any assumptions that deviate materially from information contained in the Issuer's published financial statements so that financial market professionals can understand how a Credit Rating assessment was made.</p>	<p>MIS will publish sufficient information about its rating committee process, procedures, methodologies, and any assumptions about the published financial statements that deviate materially from information contained in the Issuer's published financial statements so that financial market professionals can understand how a Credit Rating assessment was made.</p> <ul style="list-style-type: none"> (a) MIS will publish sufficient information about its loss expectations and cash-flow analysis relating to a structured finance Credit Rating so that a financial market professional can understand the basis for the Credit Rating. To the extent practical, MIS will disclose the degree to which it analyzes how sensitive a structured finance Credit Rating is to changes in MIS's underlying Credit Rating assumptions. (b) MIS currently does not use a different scale to differentiate structured finance Credit Ratings from Credit Ratings it assigns to other asset types. If MIS were to adopt a different scale for its structured finance Credit Ratings, MIS would: (i) publicly notify the market; and (ii) clearly define the use and application of such rating symbols. MIS defines and discloses its various ratings symbols on the Rating Definitions site on the Credit Policy page of moodys.com. (c) MIS will clearly indicate the attributes and limitations of Credit Ratings and that MIS does not verify information provided to it by the Issuer or originator of a rated security. This information should assist investors in the developing a greater understanding of what a Credit Rating is.

Section 3.5 of the Revised IOSCO Code contains several additional requirements regarding the disclosure by credit rating agencies of information about how credit ratings were determined for structured finance transactions. Sections 3.7(a) and (c) of the 2008 MIS Code adopt the substantive provisions of Sections 3.5(a) and (c) of the Revised IOSCO Code. To achieve the goals embodied in Sections 3.7(a) and (c), MIS has incorporated disclosure language that is prominently placed in Credit Rating Announcements, and has placed disclosure language in a more prominent position on our website, www.moodys.com.

After requesting feedback from market participants as to whether MIS should implement a different rating scale for structured finance ratings than it uses for corporate ratings, MIS received significant negative reaction to a different rating scale. Thus, MIS is not implementing a different scale for its structured finance ratings at the present time. Rather, the 2008 MIS Code captures the spirit of the Revised IOSCO Code provision and leaves MIS room to adopt a different rating scale at such time as demand for it justifies the change.

Section 3.11 — Historical Information about Ratings

October 2007 MIS Code (Section 3.10)	November 2008 MIS Code
<p>In order to promote transparency, and to enable the market to best judge the aggregate performance of Credit Ratings on debt instruments, where possible, MIS will publish sufficient information about its historical default rates by rating category, the transitions between rating categories, and periodic performance metrics so that financial market professionals can understand the historical performance of rating categories.</p>	<p>In order to promote transparency and to enable the market to best judge the aggregate performance of Credit Ratings on debt instruments, where possible, MIS will publish sufficient information about its historical default rates by rating category, the transitions between rating categories, and periodic performance metrics so that financial market professionals can understand the historical performance of securities assigned to different rating categories. Where feasible, this information will include verifiable, quantifiable historical information about the performance of its rating options, organized and structured and, where possible, standardized in such a way to assist financial professionals in drawing performance comparisons between credit rating agencies.</p>

Section 3.8 of the Revised IOSCO Code addresses the issue of credit rating agencies providing historical information about the performance of rated securities to help financial market professionals evaluate historical ratings performance. MIS believes that it has, in substance, adopted this provision in its entirety as Section 3.11 of the 2008 MIS Code. MIS believes there are two differences between the 2008 MIS Code and the IOSCO Code, the reasons for which are discussed in Section IV below.

Section 4.4 — Publication on Website of Important MIS Information

October 2007 MIS Code	November 2008 MIS Code
<p>This Code, and any modifications made to it going forward, will be made public and readily accessible via moodys.com</p>	<p>MIS will publish in a prominent position on moodys.com links to (1) the MIS Code of Conduct; (2) a general description of the methodologies MIS uses in assigning Credit Ratings; and (3) information about MIS’s historic credit rating(s) performance.</p>

In the 2007 MIS Code, MIS agreed to make available through its website, www.moodys.com, the MIS Code and any modifications to it. IOSCO added Section 4.3 to the Revised IOSCO Code to require that a credit rating agency provide a link in a prominent position on its website to its code of conduct, a description of the methodologies it uses, and historic performance data. [Section 4.4](#) of the 2008 MIS Code was revised to conform to the corresponding Revised IOSCO Code provision.

III. Implementation of the MIS Code

Since issuing the 2007 MIS Code Report, MIS has refined certain aspects of its implementation of the MIS Code, some of which are discussed above and the most important of which are described in greater detail below. Chief among these changes are the assignment to the Credit Policy Group of more rigorous review and development responsibilities with respect to methodologies and models used in the issuance and monitoring of credit ratings. In addition, MCO has adopted a formal Separation Policy that enhances the reorganization of MCO's businesses into MIS and MA that reinforces the independence of MIS's ratings business. Finally, MIS has implemented a number of procedures that are designed to enhance the transparency to market participants of how our credit ratings are derived.

A. Separation Policy

At the beginning of 2008, MCO legally separated its different businesses into separate operating subsidiaries. The main goal of MCO's separation was to further enhance the independence of MIS from MCO's other commercial activities while still serving the organization's business needs. To reinforce the importance of this legal separation, MCO has adopted a formal Separation Policy to consolidate various different policies and practices previously set out in a number of different sources. The goal of the Separation Policy is to help clarify to all MCO employees what kinds of business activities are consistent with legal separation. The Separation Policy has several different components:

- › **Physical Separation.** As noted in the 2007 Report on the Code, MCO reorganized its businesses into distinct operating divisions: MIS and MA. MIS provides credit ratings and related services, while MA brings together Moody's KMV, Moody's Economy.com, other businesses outside the rating agency, as well as the sales and marketing services for all of MCO. MIS believes that requiring physical separation of the workspaces of employees of MIS and MA reduces the opportunity for employees of the different entities to share information with those who should not receive it.
- › **Firewalls.** MCO has long maintained an organization-wide "need-to-know" policy to protect against potential conflicts of interest that can arise from the improper disclosure of Confidential Information. As noted in the 2006 Report on the Code, the "need to know" policies were supplemented by firewall policies to protect against potential conflicts of interest that could arise if employees of certain MCO

subsidiaries that were not involved in Credit Rating Services disclosed Confidential Information to those who were involved in Credit Rating Services except under limited circumstances and subject to specific safeguards. With the legal separation of MCO into MIS and MA, the Separation Policy extends these firewall policies to MIS and all of MA.

- › Information Technology. The separation of the businesses conducted by MIS and MA also means that MIS and MA are required to have their own information systems. In addition, the Separation Policy requires that access by employees of MIS and MA to the information technology systems of the other will occur only in certain circumstances and subject to important safeguards.
- › Fee Discussions. As part of its longstanding efforts to avoid potential and actual conflicts of interest in the credit rating process, MIS has required its Analysts to refrain from participating in fee or payment discussions with Issuers or their agents. In fact, both the 2006 Report on the MIS Code and the 2007 Report on the MIS Code explain that this prohibition applies even to certain levels of managers in MIS. The Separation Policy extends the prohibition on participation in fee discussions still further — to all Analysts and Managers below the Senior Managing Director level.

B. Enhanced Credit Policy Group Duties and Reporting Responsibilities

MIS has long had a Credit Policy Committee, several subcommittees and other standing committees that were charged with responsibility for credit policy oversight. In 2008, MIS streamlined this amalgamation of various committees with responsibility for credit policy oversight into what has become the Credit Policy Group, a more independent body overseen by a Chief Credit Officer who reports to the Chief Operating Officer of MIS and the Chief Executive Officer and Chairman of MCO. The principal role of the Credit Policy Group is to promote the broad principles of consistency, rigor and transparency by exercising informed oversight over the process for generating rating opinions and the development and review of rating methodologies and models. Among the important duties that MIS has assigned to the Credit Policy Group are: (i) the development of a protocol that outlines the steps an Analyst should take if an error is discovered in a model relating to a new or existing transaction; (ii) validating the accuracy of the primary models used in the credit rating process; and (iii) additional efforts to review on a periodic basis all ratings methodologies.

C. Increased Credit Rating Transparency

Although MIS had long had consistent policies with respect to the dissemination of its credit ratings, the changes in the Revised IOSCO Code call for MIS to make clearer to market participants how its credit ratings are derived and what its credit ratings mean. As a result, MIS has instituted a number of new procedures in support of the changes to Sections 3.6 and 3.7 of

the 2008 MIS Code. Users of our website, www.moody.com, must accept the terms and conditions set forth in a click wrap disclaimer before they can access the content of our site.

MIS Credit Rating Announcements now include the following information: (i) the date of the last associated Credit Rating Announcement, if any; (ii) the principal action it announced; and (iii) the principal methodology relied upon to produce the credit rating. MIS has introduced automated systems to facilitate compliance with this requirement.

As discussed above, to provide greater transparency as to the attributes of structured finance credit ratings, MIS also has begun rolling out V Scores and Parameter Sensitivities, new measures that will help market participants better understand the volatility of the assets underlying a structured finance transaction and the sensitivity of those ratings to changes in market conditions. MIS expects that V Scores and Parameter Sensitivities will be rolled out to all areas of its structured finance group globally by the end of 2009.

In addition, the Credit Policy Group will publish press releases on a quarterly basis to identify incremental changes to structured finance methodologies and procedures that have not previously been published, if any. This initiative, which began at the end of 2008, will enable MIS to notify market participants of incremental changes without the delays necessarily associated with updating a published methodology. In addition, MIS will undertake to update published methodologies on an annual basis to reflect these incremental changes.

IV. Differences between the MIS Code and the IOSCO Code

Below, we explain other differences between the 2008 MIS Code and the Revised IOSCO Code not addressed above. The explanations include (i) additional provisions that more fully explain the credit rating process at MIS or address additional areas not reflected in the Revised IOSCO Code; and (ii) provisions written so that they correspond more closely to our business environment and practices.

Section 1.8 — Continuing Education

November 2008 MIS Code

MIS will adopt and maintain an appropriate continuing education program for Analysts. MIS will designate one or more appropriate Employees to implement and oversee the program.

MIS believes in the value of making sure that its Analysts remain current with trends in the marketplace as well as with changes to policies and procedures within the organization. Although it has already conducted a number of programs in this regard, MIS has added [Section 1.8](#) of the 2008 MIS Code to enhance its commitment to provide appropriate continuing education programs for Analysts. Analysts are presently required to complete 20 hours of

coursework annually, which they can select from a variety of courses based on their individual interests, needs and the direction of their Managers.

Section 3.3 — Information Disclosure by Issuers

November 2008 MIS Code

MIS will encourage structured finance Issuers and originators of structured finance products to publicly disclose all relevant information regarding these products.

Although MIS believes that it has captured the substance of the requirement in the new [Section 3.3](#) of the Revised IOSCO Code in the 2008 MIS Code, it also believes that another portion of the requirement in the Revised IOSCO Code — the clause calling on credit rating agencies to disclose in their rating announcement whether the issuer has informed it that it is publicly disclosing all relevant information — is one that MIS is no position to enforce or meaningfully validate. MIS fully supports IOSCO's effort to encourage public disclosure by issuers of all relevant information about structured finance products that credit rating agencies rate. However, MIS does not believe that any credit rating agency is capable of complying with this portion of the Revised IOSCO Code because credit rating agencies neither own nor control the information that is being disclosed to them to produce credit ratings.

Section 3.11 — Historical Information

November 2008 MIS Code

In order to promote transparency and to enable the market to best judge the aggregate performance of Credit Ratings on debt instruments, where possible, MIS will publish sufficient information about its historical default rates by rating category, the transitions between rating categories, and periodic performance metrics so that financial market professionals can understand the historical performance of securities assigned to different rating categories. Where feasible, this information will include verifiable, quantifiable historical information about the performance of its rating opinions, organized and structured and, where possible, standardized in such a way to assist financial professionals in drawing performance comparisons between credit rating agencies.

Upon request, MIS will provide ratings data feeds to regulatory authorities to allow those authorities to conduct their own evaluation of Credit Ratings performance.

The Revised IOSCO Code provides that credit rating agencies should publish verifiable, quantifiable historical information about the performance of their rating opinions and, where

possible, standardize it in a way that will assist financial professionals in drawing performance comparisons between credit rating agencies. Although MIS acknowledges the importance of this process, MIS can only commit to do what is feasible — there are situations in which it is impossible to provide the information in the way suggested. In addition, [Section 3.11](#) of the 2008 MIS Code contains a provision that is not present in the Revised IOSCO Code stating that MIS will provide a ratings data feed to regulatory authorities to allow those authorities to conduct their own evaluation of credit ratings performance. This reflects a commitment MIS made, along with several other industry participants, to facilitate regulatory review.



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