



Financial Services Commission  
Mauritius

# **CREDIT RATING AGENCIES**

## **FREQUENTLY ASKED QUESTIONS (FAQs)**

**(i) What is a credit rating?**

A credit rating is an opinion regarding 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<sup>1</sup>.

A credit rating typically is expressed on a scale of alphabetical and/or numeric symbols (for example, “AAA”, “BBB”, “Aa2”), and these symbols are defined by the particular credit rating agency (“CRA”) issuing the rating<sup>2</sup>.

**(ii) What does a CRA do?**

A CRA refers to an entity whose business is the issuance of credit ratings for the purposes of evaluating the credit risk of issuers of debt and debt-like securities<sup>3</sup>.

The three biggest rating agencies are Standard & Poor's, Moody's and Fitch. They cover approximately 95% of the world market<sup>4</sup>.

**(iii) What does a CRA do with respect to bond issues?**

A CRA can assess the credit risk of a bond issuer. A CRA attempts to make sense of the vast amount of information available regarding a bond issuer, its market and its economic circumstances in order to give investors and lenders a better understanding of the risks they face when purchasing the bonds.

**(iv) Why should bond issuers consider rating their bonds?**

- CRA opinions help in reducing information asymmetry between issuers and investors. The effect of reducing this information asymmetry is to reduce the risk premium associated with the bond issue, thus lowering the margin payable on the issue and consequently reducing the cost of capital for bond issuers.

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<sup>1</sup> Definition is from the *Code of Conduct Fundamentals for Credit Rating Agencies*, The Technical Committee of the International Organization of Securities Commission Revised May 2008, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD271.pdf>

<sup>2</sup> *The ABCs of Credit Ratings*, U.S. Securities and Exchange Commission, SEC Pub. No. 161 (10/13), available at [https://www.sec.gov/investor/alerts/ib\\_creditratings.pdf](https://www.sec.gov/investor/alerts/ib_creditratings.pdf)

<sup>3</sup> Definition is from the *Code of Conduct Fundamentals for Credit Rating Agencies*, The Technical Committee of the International Organization of Securities Commission Revised May 2008, available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD271.pdf>

<sup>4</sup> *EU Memo on new rules on credit rating agencies – frequently asked questions*, 18 June 2003 available at [http://europa.eu/rapid/press-release\\_MEMO-13-571\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-571_en.htm)

- A rated bond issue gives the bond issuer access to institutional and fiduciary investors (i.e., those with independent authority to invest on behalf of others, such as the managers of pensions) as many of these investors may have policies to invest in rated bonds only.

**(v) What are the IOSCO principles for the activities of CRAs?**

In 2003, the IOSCO issued four principles (“IOSCO CRA Principles”), which can assist CRAs in developing informed and independent ratings. The principles encourage the adoption of procedures and mechanisms by CRAs that address:

- Quality and integrity of the rating process

CRAs should endeavour to issue opinions that help reduce the asymmetry of information among borrowers, lenders and other market participants.

- Independence and conflicts of interest

CRA ratings decisions should be independent and free from political or economic pressures and from conflicts of interest arising due to the CRA’s ownership structure, business or financial activities, or the financial interests of the CRA’s employees. CRAs should, as far as possible, avoid activities, procedures or relationships that may compromise or appear to compromise the independence and objectivity of the credit rating operations.

- Transparency and timeliness of ratings disclosure

CRAs should make disclosure and transparency an objective in their ratings activities.

- Confidential information

CRAs should maintain in confidence all non-public information communicated to them by any issuer, or its agents, under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially.

*More details on the IOSCO CRA principles are available on the website of [IOSCO](#).*

**(vi) What is the IOSCO Code of Conduct for CRAs?**

The IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (“IOSCO CRA Code”) provides guidance to CRAs on how the IOSCO CRA Principles can be implemented

in practice.

The IOSCO CRA Code was first published in 2004 when few jurisdictions had laws governing activities of CRAs. In recent years, many IOSCO members have implemented registration and oversight programs for CRAs and have exercised supervisory authority over CRAs. In light of these developments, IOSCO has issued a consultation paper in February 2014 on significant revisions and updates to the IOSCO CRA Code, which was last revised in 2008.

*More details on the IOSCO CRA Code are available on the website of [IOSCO](#).*

**(vii) For bond issuers seeking credit ratings, which CRAs should they use?**

As at 22<sup>nd</sup> April 2014, there is no CRA licensed by the FSC Mauritius. A bond issuer seeking credit ratings of foreign CRAs, is encouraged to select a CRA which meets the following criteria:

- the CRA shall be a resident in a country, whose securities market regulator is a signatory to IOSCO Multilateral Memorandum of Understanding. Please refer to the [list of IOSCO current signatories](#);
- the CRA established in that country shall be licensed or authorised or registered or otherwise approved, and is subject to supervision by the securities market regulator in that country; and
- the security market regulator of that country has put in place a regulatory program for CRAs, which embeds the four principles which the IOSCO has issued in 2003 to assist CRAs in developing informed and independent ratings.

***Financial Services Commission  
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