

**CSA Notice and Request for Comment
Relating to Designated Rating Organizations**

Draft Regulation to amend Regulation 25-101 respecting Designated Rating Organizations

Draft Regulation to amend Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations

Draft Regulation to amend Regulation 33-109 respecting Registration Information

Draft Regulation to amend Regulation 41-101 respecting General Prospectus Requirements

Draft Regulation to amend Regulation 44-101 respecting Short Form Prospectus Distributions

Draft Regulation to amend Regulation 44-102 respecting Shelf Distributions

Draft Regulation to amend Regulation 45-106 respecting Prospectus Exemptions

Draft Regulation to amend Regulation 51-102 respecting Continuous Disclosure Obligations

Draft Regulation to amend Regulation 81-102 respecting Investment Funds

Draft Regulation to amend Regulation 81-106 respecting Investment Fund Continuous Disclosure

Draft Amendments to Policy Statement to Regulation 21-101 respecting Marketplace Operation

Draft Amendments to Policy Statement to Regulation 81-102 respecting Investment Funds

July 6, 2017

Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are publishing for a 90-day comment period draft amendments (the **Draft Amendments**) to:

- *Regulation 25-101 respecting Designated Rating Organizations (**Regulation 25-101**)*,
- *Regulation 31-103 respecting Registration Requirements, Exemptions and Ongoing Registrant Obligations (**Regulation 31-103**)*,
- *Regulation 33-109 respecting Registration Information (**Regulation 33-109**)*,
- *Regulation 41-101 respecting General Prospectus Requirements (**Regulation 41-101**)*,
- *Regulation 44-101 respecting Short Form Prospectus Distributions (**Regulation 44-101**)*,
- *Regulation 44-102 respecting Shelf Distributions (**Regulation 44-102**)*,

- *Regulation 45-106 respecting Prospectus Exemptions (Regulation 45-106),*
- *Regulation 51-102 respecting Continuous Disclosure Obligations (Regulation 51-102),*
- *Regulation 81-102 respecting Investment Funds (Regulation 81-102), and*
- *Regulation 81-106 respecting Investment Fund Continuous Disclosure (Regulation 81-106),*
- *Policy Statement to Regulation 21-101 respecting Marketplace Operation (Policy Statement 21-101), and*
- *Policy Statement to Regulation 81-102 respecting Investment Funds (Policy Statement 81-102).*

The Draft Amendments relate to designated rating organizations (**DROs**) and credit ratings of DROs.

The text of the Draft Amendments is published with this notice and will also be available on websites of CSA jurisdictions, including:

www.lautorite.qc.ca
www.albertasecurities.com
www.bcsc.bc.ca
nssc.novascotia.ca
www.fcnc.ca
www.osc.gov.on.ca
www.sfsc.gov.sk.ca
www.msc.gov.mb.ca

Substance and Purpose

The Draft Amendments consist of the following:

1. Draft Amendments relating to EU equivalency and IOSCO Code revision

We propose to amend Regulation 25-101 to reflect new requirements for credit rating organizations in the European Union (**EU**) that must be included in Regulation 25-101 by June 1, 2018 in order for:

- the EU to continue to recognize the Canadian regulatory regime as “equivalent” for regulatory purposes in the EU (**EU equivalency**), and
- credit ratings of a Canadian office of a DRO to continue to be used for regulatory purposes in the EU.

We also propose to amend Regulation 25-101 to reflect new provisions in the March 2015 version of the *IOSCO Code of Conduct Fundamentals for Credit Rating Agencies* (the **IOSCO Code**) of the International Organization of Securities Commissions (**IOSCO**). Since Regulation 25-101 is based on the previous version of the IOSCO Code, we want to continue to be able to represent that Regulation 25-101 reflects the IOSCO Code.

2. Draft Amendments relating to Kroll application for designation as a DRO and Other Matters

As discussed in greater detail in the “Background” section of this notice, Kroll Bond Rating Agency, Inc. (**Kroll**) has filed an application for designation as a DRO.

We propose to amend Regulation 44-101 and Regulation 44-102 to recognize credit ratings of Kroll, but only for the purposes of the alternative eligibility criteria in section 2.6 of Regulation 44-101 and section 2.6 of Regulation 44-102 for issuers of asset-backed securities (**ABS**) to file a short form prospectus or shelf prospectus, respectively (the **ABS Short Form Eligibility Criteria**).

The Draft Amendments also address the following matters (the **Other Matters**):

- To ensure that Kroll credit ratings are only recognized for purposes of the ABS Short Form Eligibility Criteria, we propose to include clarifying language in provisions of Regulation 31-103, Regulation 33-109, Regulation 41-101, Regulation 45-106, Regulation 81-102, Regulation 81-106 and Policy Statement 21-101 that refer to DROs or credit ratings of DROs.
- We have included certain “housekeeping” revisions in the Draft Amendments.

Background

1. Draft Amendments relating to EU equivalency and IOSCO Code revision

EU equivalency

We propose to amend Regulation 25-101 to reflect new EU requirements that must be included in Regulation 25-101 by June 1, 2018 in order to maintain EU equivalency.

The EU regulation on credit rating agencies (the **EU CRA Regulation**) allows credit ratings issued outside the EU to be used for regulatory purposes in the EU when they are issued by certified credit rating agencies or endorsed by credit rating agencies established in the EU. As the legal and supervisory framework for DROs in Regulation 25-101 has been deemed as stringent as the EU framework by the European Securities and Markets Authority (**ESMA**) and equivalent by the European Commission (**EC**) pursuant to an EC implementing decision of October 5, 2012, both mechanisms are currently operational in respect of credit ratings of a Canadian office of a DRO.

In 2013, the EU CRA Regulation was amended to include a range of new requirements. While some of these new requirements are explicitly excluded from the assessment of EU equivalency, ESMA and the EC are required to ensure that the remaining provisions are taken into account for their past EU equivalency decisions. The entry into force of these new requirements for the purposes of EU equivalency is June 1, 2018.

IOSCO Code revision

We also propose to amend Regulation 25-101 to reflect new provisions in the IOSCO Code.

The IOSCO Code offers a set of robust measures as a framework for credit rating organizations to protect the integrity of the rating process, ensure that investors and issuers are treated fairly,

and safeguard confidential material information provided to credit rating organizations by issuers. In March 2015, the IOSCO Code was revised to include new provisions.

Since Regulation 25-101 is based on the previous version of the IOSCO Code, we want to continue to be able to represent that Regulation 25-101 reflects the IOSCO Code.

2. Draft Amendments relating to Kroll application for designation as a DRO and Other Matters

Kroll application

Currently, there are four DROs in Canada: S&P Global Ratings Canada (**S&P**), Moody's Canada Inc. (**Moody's**), Fitch Ratings, Inc. (**Fitch**) and DBRS Limited (**DBRS**).

Kroll has filed an application for designation as a DRO. The Ontario Securities Commission (**OSC**) is the principal regulator for the Kroll application.

Kroll's application is significant and novel since it is the first designation application from a credit rating organization whose credit ratings have:

- not previously been referred to in CSA rules and policies, and
- not generally been used in the Canadian marketplace.

Kroll mainly operates in the United States, where it is registered as a "nationally recognized statistical rating organization" with the United States Securities and Exchange Commission.

Regulatory approach to Kroll application

Under applicable securities legislation, the OSC can only make a designation for the purpose of allowing an applicant credit rating organization (a **DRO Applicant**) to satisfy:

- a requirement in securities law that a credit rating be given by a DRO, or
- a condition for an exemption under securities law that a credit rating be given by a DRO, (collectively, **Credit Rating Provisions**).

The Credit Rating Provisions serve a "minimum standards" function by establishing minimum levels of credit quality of securities for certain regulatory purposes (e.g., the availability of an exemption or an alternative process in a rule). The Credit Rating Provisions currently refer to specific credit ratings of the four existing DROs. It is therefore appropriate for the principal regulator to consider whether a DRO Applicant's credit ratings can satisfy this minimum standards function for specific Credit Rating Provisions.

This requires the principal regulator to consider the following as part of its designation decision:

- whether the Applicant DRO has sufficient experience and expertise in rating the particular types of securities and issuers covered by specific Credit Rating Provisions; and
- the appropriate credit rating level for the specific Credit Rating Provisions.

As a result, the principal regulator should only make its final designation order in conjunction with appropriate rule and policy amendments being made to the relevant Credit Rating Provisions.

Analysis of Kroll application

Based on the information provided by Kroll, it appears that Kroll has sufficient expertise and experience in rating ABS for purposes of the ABS Short Form Eligibility Criteria. Consequently, subject to confirmation and completion of certain matters, staff anticipate recommending that Kroll be designated as a DRO, but only:

- for the purposes of the ABS Short Form Eligibility Criteria, and
- if the Draft Amendments are enacted as final amendments and those amendments come into effect following Ministerial approval of the rule amendments.

At this time, staff do not anticipate recommending that Kroll be designated as a DRO for purposes of other Credit Rating Provisions.

Appropriate rating categories of Kroll for ABS Short Form Eligibility Criteria

Based on the information provided by Kroll, it appears that a Kroll long term credit rating of “BBB” and a Kroll short term credit rating of “K3” are the appropriate rating categories for purposes of the ABS Short Form Eligibility Criteria.

- Under the ABS Short Form Eligibility Criteria, an ABS issuer must have a “designated rating” from a DRO, which would include a long term credit rating at or above “BBB” (for DBRS, Fitch and S&P) or “Baa” (for Moody’s).
- As part of its work in determining the appropriate rating categories of Kroll, staff compared a large number of credit ratings of Kroll for numerous ABS issuers in the United States against those of DBRS, Fitch, S&P and Moody’s for the same issuers. This work allowed staff to consider whether Kroll regularly gave higher or lower credit ratings than its competitors.
- Staff considered the experience of Kroll in rating ABS issuers in the United States to be relevant in determining the appropriate rating categories of Kroll for purposes of the ABS Short Form Eligibility Criteria.

Summary of the Draft Amendments

1. Draft Amendments relating to EU equivalency and IOSCO Code revision

Annex A sets out a summary of the Draft Amendments relating to EU equivalency and the IOSCO Code revision.

2. Draft Amendments relating to Kroll application for designation as a DRO and Other Matters

Annex B sets out a summary of the Draft Amendments relating to the Kroll application for designation as a DRO and the Other Matters.

Impact on Investors

1. Draft Amendments relating to EU equivalency and IOSCO Code revision

If the Draft Amendments relating to EU equivalency and the IOSCO Code revision are enacted, investors may benefit from the additional safeguards in Regulation 25-101 that DROs will be required to follow. In particular, the Draft Amendments will provide additional safeguards for protecting the integrity of the rating process, ensuring that investors and issuers are treated fairly, and safeguarding confidential material information provided to DROs by issuers.

2. Draft Amendments relating to Kroll application for designation as a DRO and Other Matters

If the Draft Amendments relating to the Kroll application for designation as a DRO are enacted and Kroll is designated as a DRO for purposes of the ABS Short Form Eligibility Criteria, Kroll may increase its presence in the Canadian marketplace and more investors in Canada may use Kroll's credit ratings.

The Draft Amendments do not detract from (or contradict) past CSA efforts to help ensure that investors are cautioned about undue mechanistic reliance on credit ratings and the limits of credit ratings. In particular, under existing prospectus and continuous disclosure regulations, reporting issuers are required to provide disclosure (including cautionary statements) about the attributes and limitations of their credit ratings.

Anticipated Costs and Benefits

1. Draft Amendments relating to EU equivalency and IOSCO Code revision

The benefits of the Draft Amendments relating to EU equivalency and the IOSCO Code revision include the following:

- Issuers and investors may benefit from the additional safeguards in Regulation 25-101 that DROs will be required to follow. In particular, the Draft Amendments will provide additional safeguards for protecting the integrity of the rating process, ensuring that investors and issuers are treated fairly, and safeguarding confidential material information provided to DROs by issuers.
- DROs, issuers and investment dealers will benefit if EU equivalency is maintained so that credit ratings of a Canadian office of a DRO can continue to be used for regulatory purposes in the EU. Continued EU equivalency is important for Canadian issuers that pay for such a credit rating and sell their rated securities to EU investors, investment dealers that structure cross-border transactions involving rated securities of Canadian issuers on the basis of EU equivalency, and institutional investors that use such a credit rating for regulatory purposes in the EU.

DROs will incur costs associated with understanding and complying with the new requirements. One-time start-up costs include:

- a DRO revising its code of conduct to comply with the new requirements in Appendix A of Regulation 25-101;
- a DRO revising its existing policies and procedures, or developing new policies and procedures, to comply with the new requirements.

However, we understand that:

- certain DROs have already revised their codes of conduct, revised existing policies and procedures and developed new policies and procedures to comply with new provisions in the March 2015 version of the IOSCO Code; and
- certain DROs, or their DRO affiliates that operate in the EU, have policies and procedures that comply with the new EU requirements.

2. Draft Amendments relating to Kroll application for designation as a DRO and Other Matters

In terms of potential benefits to Kroll and other market participants, if the Draft Amendments relating to the Kroll application for designation as a DRO come into effect and Kroll is designated as a DRO for purposes of the ABS Short Form Eligibility Criteria:

- More ABS issuers may retain Kroll to rate their ABS.
- Issuers, investment dealers and institutional investors may have an increased choice of DROs and competition among DROs may increase.

Market participants will need to understand and comply with the new provisions.

“Rating shopping” may occur if an issuer seeks to retain those credit rating organizations that are more likely to provide the most favourable credit ratings of the issuer and its securities. There may be an increased potential for rating shopping by ABS issuers from the Draft Amendments.

Local Matters

Where applicable, an annex provides additional information required by the local securities legislation.

Request for Comments

We welcome your comments on the Draft Amendments. In addition to any general comments you may have, we also invite comments on the following specific questions:

1. Do you agree that a Kroll long term credit rating of “BBB” and a Kroll short term credit rating of “K3” would be the appropriate rating categories for purposes of the ABS Short Form Eligibility Criteria?
2. We have considered the experience of Kroll in rating ABS issuers in the United States in determining the appropriate rating categories of Kroll for purposes of the ABS Short Form Eligibility Criteria. Do you agree that this U.S. experience is relevant to the Canadian marketplace?
3. Do you think there is an increased potential for rating shopping by ABS issuers if the Draft Amendments are implemented? If so, why or why is that a concern?
4. What would be the implications to Canadian market participants if the EU did not continue to recognize the Canadian regulatory regime in Regulation 25-101 as “equivalent” for regulatory purposes in the EU? We are interested in details of how you would be impacted.

How to Provide Comments

Please submit your comments in writing on or before **October 4, 2017**. If you are not sending your comments by email, an electronic file containing the submissions should also be provided (in Microsoft Word format).

Address your submission to all of the CSA as follows:

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Superintendent of Securities, Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Nunavut

Deliver your comments **only** to the addresses below. Your comments will be distributed to the other participating CSA.

M^c Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
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The Secretary
Ontario Securities Commission
20 Queen Street West, 22nd Floor
Toronto, Ontario M5H 3S8
Fax : 416 593-2318
comment@osc.gov.on.ca

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of the written comments received during the comment period. All comments received will be posted on the websites of each of the Alberta Securities Commission at www.albertasecurities.com, the Autorité des marchés financiers at www.lautorite.qc.ca and the Ontario Securities Commission at www.osc.gov.on.ca. Therefore, you should not include

personal information directly in comments to be published. It is important that you state on whose behalf you are making the submission.

Contents of Annexes

This notice includes the following annexes:

- Annex A sets out a summary of the Draft Amendments relating to EU equivalency and the IOSCO Code revision,
- Annex B sets out a summary of the Draft Amendments relating to the Kroll application for designation as a DRO and the Other Matters.

Questions

Please refer your questions to any of the following:

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Annex A

Summary of Draft Amendments Relating to EU Equivalency and IOSCO Code Revision

This Annex summarizes the Draft Amendments to Regulation 25-101, including Appendix A, *Provisions Required to be Included in a Designated Rating Organization's Code of Conduct* (**Appendix A**), and Form 25-101F1 *Designated Rating Organization Application and Annual Filing* (**Form 25-101F1**).

1. EU equivalency

The Draft Amendments to Regulation 25-101 relating to EU equivalency are summarized as follows:

Credit ratings and rating outlooks

We added a definition of “rating outlook” in section 1 of Regulation 25-101 and included references to “rating outlooks” in appropriate provisions in Regulation 25-101 and Appendix A.

We also included requirements providing that:

- A DRO must provide additional disclosure in respect of credit ratings or rating outlooks (sections 4.13.1 and 4.13.2 of Appendix A).
- A DRO must inform an issuer of a credit rating or rating outlook during the business hours of the issuer (section 4.12 of Appendix A).

Initial reviews and preliminary ratings

We revised the disclosure requirement in section 4.7 of Appendix A so that it also applies to initial reviews and preliminary ratings for debt securities.

Rating categories

We included additional requirements regarding rating categories (section 4.14 of Appendix A).

Rating methodologies

We included requirements providing that:

- A DRO must take certain actions where it becomes aware of errors in a rating methodology or its application, if those errors could have an impact on its credit ratings (section 2.12.1 of Appendix A).
- A DRO must make any changes to credit ratings in accordance with the DRO's published rating methodologies (section 2.13.1 of Appendix A).
- A DRO must include certain guidance when disclosing methodologies, models and key rating assumptions (section 4.8.1 of Appendix A).
- A DRO must publish, for comment, proposed changes to its rating methodologies (sections 4.15.1 and 4.15.2 of Appendix A).

Significant security holders

We added a definition of “significant security holder” in section 1 of Regulation 25-101 and included requirements regarding a significant security holder of a DRO or an affiliate that is a parent of a DRO (paragraph 2.20(d) and section 3.6.1 of Appendix A).

Treatment of confidential information

We added requirements regarding the treatment of confidential information (section 4.16.1 of Appendix A). We revised section 4.19 of Appendix A so that it also applies to transactions by a DRO.

Internal control mechanisms

We added a requirement regarding internal control mechanisms (section 2.26 of Appendix A).

Policies and procedures

We added requirements for a DRO to have additional policies and procedures to prevent and mitigate conflicts of interest and to ensure the independence of credit ratings, rating outlooks and DRO employees (section 3.11.1 of Appendix A).

Fees

We added requirements regarding fees charged to rated entities (section 3.9.1 of Appendix A).

Form 25-101F1

We revised:

- Item 11 of Form 25-101F1 to require disclosure of the number of ratings employees, and the number of ratings employees supervisors, allocated to credit rating activities for different asset classes.
- Item 13 of Form 25-101F1 to require additional disclosure on revenues.

We added Item 14A to Form 25-101F1, which requires a DRO or a DRO applicant to disclose its pricing policy for credit rating services and any ancillary services. Since we expect that a DRO or a DRO applicant may apply for confidentiality in respect of its pricing policy, we revised Instruction (4) to Form 25-101F1 to clarify the circumstances in which confidentiality may be granted.

2. IOSCO Code revision

The Draft Amendments to Regulation 25-101 relating to the IOSCO Code revision are summarized as follows:

Credit ratings

We replaced certain references to “credible rating” with “high-quality credit rating” (section 2.7 and 2.9 of Appendix A).

Novel structures

We revised section 2.8 of Appendix A so that it also applies to novel instruments, securities and entities.

We added a requirement that a DRO will not issue or maintain a credit rating for entities or securities for which it does not have appropriate information, knowledge or expertise (section 2.9 of Appendix A).

Rating methodologies

We revised the requirements regarding rating methodologies in section 2.2 of Appendix A.

Discontinued credit ratings

We revised section 2.15 of Appendix A to clarify when a DRO must disclose that it has discontinued a credit rating.

Prospective assessments

We revised section 2.19 of Appendix A to clarify when a DRO may develop prospective assessments.

Books and records

We added a requirement that a DRO must keep books and records and other documents that are sufficiently detailed to reconstruct the credit rating process for any credit rating action (subsection 13(1.1) of Regulation 25-101).

Integrity of the rating process

We revised section 2.18 of Appendix A to include a reference to ethical behaviour.

We added a requirement that a DRO and its employees must not make promises or threats to influence rated entities or other market participants to pay for credit ratings or other services (section 2.19.1 of Appendix A).

Independence and conflicts of interest

We revised:

- Section 3.1 of Appendix A to add the phrase “or unnecessarily delay”.
- Section 3.5 of Appendix A to add the phrase “and, if practicable, physically”.
- Section 3.11 of Appendix A to add the phrase “or to develop or modify methodologies that apply to that entity”.
- Section 3.14 of Appendix A to clarify and enhance certain requirements.

We added requirements that:

- A DRO must disclose why it believes that its ancillary services do not present a conflict of interest with its credit rating activities (section 3.5 of Appendix A).
- If an actual or potential conflict of interest is unique or specific to a credit rating action with respect to a particular rated entity or related entity, the conflict of interest must be disclosed in the same form and through the same means as the relevant credit rating action (section 3.8 of Appendix A).

Transparency and timeliness of ratings disclosure and other disclosure

We revised section 4.10 of Appendix A so that:

- A DRO must disclose the risks of relying on a credit rating to make investment or other financial decisions.
- A DRO must prepare the disclosure required by this section using plain language.
- A DRO must not
 - state or imply that a regulator, except in Québec, or securities regulatory authority endorses its credit ratings, or
 - use its designation status to promote the quality of its credit ratings.

We revised:

- Section 4.11 of Appendix A to also require disclosure of financial statement adjustments that deviate materially from those contained in the issuer's published financial statements.
- Section 4.13 of Appendix A to clarify and enhance certain requirements.
- Section 4.15 of Appendix A to require that any disclosure of material modifications to a DRO's methodologies, models and key rating assumptions be made in a non-selective manner.

We added requirements that:

- If a DRO discloses to the public or its subscribers, any decision on a credit rating or rating outlook regarding a rated entity or the securities of a rated entity, as well as any subsequent decisions to discontinue the rating, it must do so on a non-selective basis (section 4.3.1 of Appendix A).
- In each of its ratings reports in respect of a credit rating or rating outlook for a structured finance product, a DRO must disclose whether the issuer of the structured finance product has informed the DRO that it is publicly disclosing all relevant information about the product being rated or if the information remains non-public (paragraph 4.5(c) of Appendix A).
- When issuing a credit rating or rating outlook, the DRO must clearly indicate the extent to which the DRO verifies information provided to it by the rated entity (section 4.10.1 of Appendix A).
- If a credit rating involves a type of entity or obligation for which there is limited historical data, the DRO must disclose this fact and how it may limit the credit rating (section 4.10.1 of Appendix A).
- For any credit rating or rating outlook, a DRO must be transparent with the rated entity and investors about how the rated entity or its securities are rated (section 4.10.2 of Appendix A).
- A DRO's disclosures must be complete, fair, accurate, timely, and understandable to reasonable investors and other expected users of credit ratings (section 4.15.3 of Appendix A).
- A DRO must publicly and prominently disclose, free of charge, certain information on its primary website (section 4.15.4 of Appendix A).

Treatment of confidential information

We revised:

- Section 4.16 of Appendix A to require that a DRO and its DRO employees must take all reasonable measures to protect non-public information about a credit rating action,

including information about a credit rating action before the credit rating or rating outlook is publicly disclosed or disseminated to subscribers.

- Section 4.18 of Appendix A to include a reference to inadvertent disclosure.

Compliance officer

We added requirements relating to a DRO's compliance officer:

- The compliance officer must be designated as an officer of the DRO, or a DRO affiliate that is a parent of the DRO, under a by-law or similar authority of the DRO or the DRO affiliate. This requirement will help ensure that the compliance officer is a senior level employee (subsection 12(1.1) of Regulation 25-101).
- The compliance officer must have the education, training and experience that a reasonable person would consider necessary to competently perform the activities of the compliance officer required under Regulation 25-101 and the DRO's code of conduct (subsection 12(1.2) of Regulation 25-101).
- The compliance officer must monitor and evaluate the adequacy and effectiveness of the DRO's policies, procedures and controls designed to ensure compliance with the DRO's code of conduct and securities legislation (section 2.28.2 of Appendix A).

Board monitoring of compliance

We added a requirement that the board of directors of a DRO or a DRO affiliate that is a parent of the DRO must monitor the compliance by the DRO and its DRO employees with the DRO's code of conduct and with securities legislation (paragraph 2.25(e) of Appendix A).

Risk management

We added requirements for a DRO to establish and maintain a risk management committee (section 2.29 of Appendix A).

Treatment of complaints

We added requirements for a DRO to establish and maintain a committee charged with receiving, retaining, and handling complaints from market participants and the public (section 4.25 of Appendix A).

Policies, procedures and controls

We added requirements for a DRO to have additional policies, procedures and controls, including requirements for:

- Policies, procedures and controls reasonably designed to avoid issuing a credit rating, action or report that is false or misleading as to the general creditworthiness of a rated entity or rated securities (section 2.6.1 of Appendix A).
- Policies, procedures and controls to ensure that a DRO does not use the services of a DRO employee which a reasonable person would consider to be lacking in or have compromised integrity (section 2.18.1 of Appendix A).
- Policies, procedures and controls reasonably designed to ensure that the DRO and its DRO employees comply with the DRO's code of conduct and securities legislation (section 2.28.1 of Appendix A).
- Policies and procedures requiring DRO employees to undergo ongoing training (section 2.30 of Appendix A).

- Policies, procedures and controls to identify and eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the credit rating methodologies, credit rating actions, or analyses by the DRO or the judgment, opinions or analysis by ratings employees (section 3.7.1 of Appendix A).
- Policies, procedures and controls for distributing credit ratings, actions, updates, rating outlooks and related reports and for when a credit rating will be withdrawn or discontinued (section 4.1.1 of Appendix A). Section 4.2 of Appendix A requires that a DRO must publicly disclose the policies and procedures.
- Policies, procedures and controls governing the treatment of confidential information and record-keeping (section 4.24 of Appendix A).

3. Other

We also made a few “housekeeping” revisions to Regulation 25-101, including correcting a typographical error in the definition of “DRO affiliate” in section 1.

Annex B

Summary of Draft Amendments Relating to Kroll Application for Designation as a DRO and Other Matters

Overview

As described earlier in this notice,

- We propose to amend Regulation 44-101 and Regulation 44-102 to recognize credit ratings of Kroll, but only for the purposes of the ABS Short Form Eligibility Criteria.
- The Draft Amendments also address the Other Matters:
 - To ensure that Kroll credit ratings are only recognized for purposes of the ABS Short Form Eligibility Criteria, we propose to include clarifying language in provisions of Regulation 31-103, Regulation 33-109, Regulation 41-101, Regulation 45-106, Regulation 81-102, Regulation 81-106 and Policy Statement 21-101 that refer to DROs or credit ratings of DROs.
 - We have included certain “housekeeping” revisions in the Draft Amendments.

Drafting approach

The Draft Amendments relating to the Kroll application for designation as a DRO and the Other Matters reflect the following drafting approach:

1. We sought to primarily amend existing definitions, rather than introduce interpretative provisions.
2. In order to reduce the number of future regulation amendments when we have another DRO Applicant similar to Kroll, we sought (where appropriate) to have the definitions of “designated rating” and “designated rating organization” in various rules refer to the amended definitions in Regulation 44-101. This approach may result in us only having to amend the definitions in Regulation 44-101 when we have another DRO applicant like Kroll.
3. As a housekeeping matter, we replaced references to:
 - “Fitch, Inc.” with “Fitch Ratings, Inc.”, and
 - “Standard & Poor’s Ratings Services (Canada)” with “S&P Global Ratings Canada”.

Draft Amendments

The Draft Amendments relating to the Kroll application for designation as a DRO and the Other Matters may be further detailed as follows:

*Regulation 31-103*¹

We revised:

- The definition of “designated rating” to provide that it has the same meaning as in paragraph (b) of the definition of “designated rating” in Regulation 81-102.

¹ On July 7, 2016, the CSA published for comment draft amendments to Regulation 31-103, including draft amendments to subparagraph (a)(i) of Schedule 1 of Form 31-103F1. It is expected that these amendments will be finalized before the Draft Amendments.

- The definition of “designated rating organization” to provide that it has the same meaning as in Regulation 44-101.
- Subparagraph (a)(i) of Schedule 1 of Form 31-101F1 to:
 - Include the applicable long term and short term credit ratings of DBRS and Fitch.
 - Include the applicable short term credit ratings of S&P and Moody’s.

Regulation 33-109²

We revised subparagraph (a)(i) of Schedule 1 of Schedule C of Form 33-109F6 to:

- Include the applicable long term and short term credit ratings of DBRS and Fitch.
- Include the applicable short term credit ratings of S&P and Moody’s.

Regulation 41-101

We revised:

- The definition of “designated rating” to provide that it has the same meaning as in Regulation 44-101.
- Section 7.2 so that the relevant provision only applies to Kroll credit ratings for a distribution of ABS.

Regulation 44-101

We revised the definition of “designated rating”.

- Paragraph (a) of the definition applies for the ABS Short Form Eligibility Criteria and includes the applicable credit ratings of Kroll and the existing four DROs.
- Paragraph (b) of the definition applies for a security referred to in any other provision of Regulation 44-101 and only includes the applicable credit ratings of the existing four DROs.
- As a housekeeping matter, we replaced the reference to the applicable credit rating of Moody’s for preferred shares.

We revised the definition of “designated rating organization”. Paragraph (a) of the definition includes Kroll and the existing four DROs.

Regulation 44-102

We revised the definition of “designated rating”.

- Paragraph (a) of the definition applies for the ABS Short Form Eligibility Criteria and provides that it has the same meaning as in paragraph (a) of the definition of “designated rating” in Regulation 44-101.
- Paragraph (b) of the definition applies for a security referred to in any other provision of Regulation 44-102 and provides that it has the same meaning as in paragraph (b) of the definition of “designated rating” in Regulation 44-101.

² On July 7, 2016, the CSA published for comment proposed amendments to Regulation 33-109, including draft amendments to subparagraph (a)(i) of Schedule 1 of Schedule C of Form 33-109F6. It is expected that these amendments will be finalized before the Draft Amendments.

Regulation 45-106

We revised:

- The definition of “designated rating” to provide that it has the same meaning as in paragraph (b) of the definition of “designated rating” in Regulation 81-102.
- The definition of “designated rating organization” to provide that it has the same meaning as in Regulation 44-101.
- Subsection 2.35(1) and section 2.35.2 to address the Other Matters.

Regulation 51-102

We deleted the definitions of “designated rating organization” and “DRO affiliate” since Regulation 51-102 no longer refers to “designated ratings” or “designated rating organizations”.

Regulation 81-102

We revised the definition of “designated rating”.

- Paragraph (a) of the definition applies for a security referred to in paragraph 4.1(4)(b) of Regulation 81-102 and provides that it has the same meaning as in paragraph (b) of the definition of “designated rating” in Regulation 44-101.
- Paragraph (b) of the definition applies for a security referred to in any other provision of Regulation 81-102 and only includes the applicable credit ratings of the existing four DROs.

We revised the definition of “designated rating organization” so that it only applies to the existing four DROs.

We deleted subsection 4.1(4.1) since the subject matter of that provision is covered by paragraph (a) of the definition of “designated rating” in Regulation 81-102.

Regulation 81-106

We added a definition of “designated rating” which provides that it has the same meaning as in paragraph (b) of the definition of “designated rating” in Regulation 81-102.

We revised subsection 1.3(2) to add the phrase “if not defined in section 1.1”.

Policy Statement 21-101

We revised subsection 10.1(6) of Policy Statement 21-101 to address the Other Matters. We also included definitions of “designated rating organization” and “DRO affiliate” for purposes of that subsection.

Policy Statement 81-102

We deleted section 3.1 of Policy Statement 81-102. We believe that this guidance is no longer necessary since filers can apply for relief from any provision in Regulation 81-102.