REGULATION TO AMEND REGULATION 25-101 RESPECTING DESIGNATED RATING ORGANIZATIONS

Securities Act
(chapter V-1.1, s. 331.1, par. (9.3), (9.4) and (34))

1. Section 1 of the Regulation 25-101 respecting Designated Rating Organizations (chapter V-1.1, r. 81) is amended:

(1) by replacing, in the definition of the expression “DRO affiliate”, the word “organizations’” with the word “organization’s”;

(2) by inserting, in the definitions of the expressions “DRO employee” and “ratings employee” and after the words “credit rating”, the words “or rating outlook”;

(3) by inserting, after the definition of the expression “related entity”, the following:

““rating outlook” means an assessment regarding the likely direction of a credit rating over the short term, the medium term or both;

““significant security holder” means a person that has beneficial ownership of, or control or direction over, whether direct or indirect, or a combination of beneficial ownership of, and control or direction over, whether direct or indirect, securities of an issuer carrying more than 10 % of the voting rights attached to all of the issuer’s outstanding voting securities;”.

2. Section 6 of the Regulation is amended by replacing, in paragraph (4), the word “agency” with the word “organization”.

3. Section 12 of the Regulation is amended by inserting, after paragraph (1), the following:

“(1.1) The compliance officer must be designated as an officer of the designated rating organization, or a DRO affiliate that is a parent of the designated rating organization, under a by-law or similar authority of the designated rating organization or the DRO affiliate.

“(1.2) 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 this Instrument and the designated rating organization’s code of conduct.”.

4. Section 13 of the Regulation is amended by inserting, after paragraph (1), the following:

“(1.1) A designated rating organization must keep such books and records and other documents that are sufficiently detailed to reconstruct the credit rating process for any credit rating action.”.

5. Section 15 of the Regulation is amended by inserting, after paragraph (3) and after the words “Except in”, the words “Alberta and”.

6. Appendix A of the Regulation is amended:

(1) by inserting, in section 2.1 and after the words “credit ratings”, the words “and rating outlooks” and by replacing the words “its rating” with the words “the applicable rating”;

(2) by replacing section 2.2 with the following:

“2.2 A designated rating organization must include a provision in its code of conduct that it will use only rating methodologies that are rigorous, systematic, continuous, capable of being applied consistently and subject to some means of objective validation based on historical experience, including back-testing.”;

(3) by replacing, in the French text of section 2.3, the words « du résultat d’une mesure concernant une notation » with the words « d’une mesure de notation »;

(4) by replacing, in the French text of section 2.6, the words « ne pas publier de résultat d'une mesure concernant une notation, de notation ni de rapport » with the words « éviter de publier une mesure de notation, une notation ou un rapport »;

(5) by inserting, after section 2.6, the following:

"2.6.1 The designated rating organization must adopt, implement and enforce 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.";

(6) by replacing sections 2.7 to 2.9 with the following:

"2.7 The designated rating organization must ensure that it has and devotes sufficient resources to carry out and maintain high-quality credit ratings for all rated entities and rated securities. When deciding whether to rate or continue rating an entity or securities, the organization must assess whether it is able to devote sufficient personnel with sufficient skill sets to provide a high-quality credit rating, and whether its personnel are likely to have access to sufficient information needed in order to provide such a rating. A designated rating organization must adopt all necessary measures so that the information it uses in assigning a credit rating or a rating outlook is of sufficient quality to support what a reasonable person would conclude is a high-quality credit rating and is obtained from a source that a reasonable person would consider to be reliable.

"2.8 The designated rating organization will appoint a senior manager, or establish a committee made up of one or more senior managers, with appropriate experience to review the feasibility of providing a credit rating for a structure, instrument, security or entity that is significantly different from the structures, instruments, securities or entities that the designated rating organization currently rates.

"2.9 The designated rating organization must not issue or maintain a credit rating for structures, instruments, securities or entities for which it does not have appropriate information, knowledge or expertise. The designated rating organization must assess whether the methodologies and models used for determining credit ratings of a structured finance product are appropriate when the risk characteristics of the assets underlying the structured finance product change significantly. If the quality of the available information is not satisfactory or if the complexity of a type of structure, instrument, security or entity should reasonably raise concerns about whether the designated rating organization can provide a high-quality credit rating, the designated rating organization must not issue or maintain a credit rating.";

(7) by replacing, in the text preceding paragraph (a) of section 2.12, the words "will do each" with the words "must do all";

(8) by inserting, after section 2.12, the following:

"2.12.1 If a designated rating organization becomes aware of errors in a rating methodology or its application, the designated rating organization must do all of the following if the errors could have an impact on its ratings:

(a) promptly notify the regulator, except in Québec, or securities regulatory authority and all affected rated entities of the errors and explain the impact or potential impact of the errors on its ratings, including the need to review existing ratings;

(b) promptly publish a notice of the errors on its website, where the errors have an impact on its ratings;

(c) promptly correct the errors in the rating methodology or the application;

(d) apply the measures set out in paragraphs 2.12 (a) to (d) as if the correction of the error were a change contemplated by that section.";

(9) by replacing, in the French text of section 2.13, the words « mesure concernant la notation » with the words « mesure de notation »;

(10) by inserting, after section 2.13, the following:

"2.13.1 A change in ratings must be made in accordance with the designated rating organization's published rating methodologies.";

(11) by replacing, wherever they occur in section 2.15, the words "will disclose" with the words "must, as soon as practicable, disclose";

(12) by inserting, in section 2.18 and after the words "high standard of integrity", the words "and ethical behaviour";

(13) by inserting, after section 2.18, the following:

"2.18.1 A designated rating organization must adopt, implement and enforce policies, procedures and controls to ensure that it does not use of the services of a DRO employee which a reasonable person would consider to be lacking in or have compromised integrity.";

(14) by replacing, in section 2.19, the words "The designated rating organization" with "Subject to section 2.20 and paragraph 3.7.1(d), the designated rating organization";

(15) by inserting, after section 2.19, the following:

"2.19.1 A designated rating organization or a DRO employee must not make promises or threats to influence rated entities, related entities, other issuers, subscribers, users of the designated rating organization's credit ratings or other market participants to pay for credit ratings or other services.";

(16) by inserting, in section 2.20 and after paragraph (c), the following:

"(d) a significant security holder of the designated rating organization or of an affiliate that is a parent of the designated rating organization.";

(17) by inserting, in section 2.22 and after the words "credit rating", wherever they occur, the words "or a rating outlook";

(18) by replacing section 2.23 with the following:

"2.23 The designated rating organization will not issue a credit rating or rating outlook if a member of its board of directors, or the board of directors of a DRO affiliate that is a parent of the designated rating organization, participated in any deliberation involving a specific credit rating or rating outlook in which the member has a financial interest in the outcome of the credit rating or rating outlook.";

(19) in section 2.25:

(a) by inserting, in the text preceding paragraph (a) and after the word "monitor", the words "all of";

(b) by inserting, after paragraph (d), the following:

"(e) the compliance by the designated rating organization and its DRO employees with the organization's code of conduct and with securities legislation.";

(20) by inserting, in section 2.26 and after the word "mechanisms", ", including internal control mechanisms in relation to the policies and procedures described in section 3.11.1";

(21) by inserting, after section 2.28, the following:

"2.28.1 A designated rating organization must adopt, implement and enforce policies, procedures and controls reasonably designed to ensure that the organization and its DRO employees comply with the organization's code of conduct and securities legislation.

“2.28.2 The designated rating organization’s compliance officer must monitor and evaluate the adequacy and effectiveness of the designated rating organization’s policies, procedures and controls referred to in section 2.28.1.

“**E. Risk management**

“2.29 A designated rating organization must establish and maintain a risk management committee made up of one or more senior managers or DRO employees with the appropriate level of experience responsible for identifying, assessing, monitoring, and reporting the risks arising from its activities, including legal risk, reputational risk, operational risk, and strategic risk. The committee must be independent of any internal audit system and make periodic reports to the board of directors of the designated rating organization, or of a DRO affiliate that is a parent of the designated rating organization, and senior management to assist the board and senior management in assessing the adequacy of the policies and procedures the designated rating organization adopted, and how well the organization implemented and enforces the policies and procedures to manage risk, including the policies and procedures specified in the organization’s code of conduct.

“**F. Training**

“2.30 A designated rating organization must adopt, implement and enforce policies and procedures ensuring DRO employees undergo appropriate formal ongoing training at reasonably regular time intervals. For greater certainty, the policies and procedures must

(a) include measures reasonably designed to verify that DRO employees undergo the training,

(b) be designed to ensure the subject matter covered by the training be relevant to the DRO employee’s responsibilities and cover, as applicable, the following:

(i) the designated rating organization’s code of conduct;

(ii) the designated rating organization’s credit rating methodologies;

(iii) the laws governing the designated rating organization’s credit rating activities;

(iv) the designated rating organization’s policies and procedures for managing conflicts of interest and governing the holding and transacting in securities;

(v) the designated rating organization’s policies and procedures for handling confidential or material non-public information.”;

(22) by replacing, in section 3.1 and after the word “from”, “, or unnecessarily delay,”;

(23) by inserting, in section 3.3 and after the words “credit rating”, the words “or rating outlook”;

(24) by inserting, in section 3.4 and after the words “credit rating”, the words “or rating outlook”;

(25) in section 3.5:

(a) by replacing the words “operationally and legally” with the words “operationally, legally and, if practicable, physically”;

(b) by inserting, after the second sentence, the following:

“The designated rating organization must publicly disclose why it believes that those ancillary services do not present a conflict of interest with its credit rating activities.”;

(26) by replacing sections 3.6 to 3.8 with the following:

"3.6 The designated rating organization must not rate, or assign a rating outlook to, a person that is an affiliate or associate of the organization or a ratings employee. The designated rating organization must not assign a credit rating or rating outlook to a person if a ratings employee is an officer or director of the person, its affiliates or related entities.

"3.6.1 A designated rating organization must not rate, or assign a rating outlook to, a person in any of the following circumstances:

(a) a significant security holder of the designated rating organization, or of an affiliate that is a parent of the designated rating organization, is a significant security holder of the person, its affiliates or related entities;

(b) an officer or director of a significant security holder of the designated rating organization, or of an affiliate that is a parent of the designated rating organization, is an officer or director of the person, its affiliates or related entities.

"**B. Procedures and policies**

"3.7 The designated rating organization must identify and eliminate or manage and publicly disclose any actual or potential conflicts of interest that may influence the opinions and analyses of ratings employees, including opinions and analyses in respect of a credit rating or rating outlook.

"3.7.1 A designated rating organization must adopt, implement and enforce 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 designated rating organization or the judgment, opinions or analyses by ratings employees. Without limiting the generality of the foregoing, the policies, procedures and controls must address all of the following conflicts and ensure that no conflict influences the designated rating organization's credit rating methodologies or credit rating actions:

(a) the designated rating organization is paid to issue a credit rating by the rated entity or a related entity;

(b) the designated rating organization is paid by subscribers with a financial interest that could be affected by a credit rating action of the designated rating organization;

(c) the designated rating organization is paid by rated entities, related entities or subscribers for services other than issuing credit ratings or providing access to the designated rating organization's credit ratings;

(d) the designated rating organization provides a preliminary indication or similar indication of credit quality to a rated entity or related entity prior to being retained to determine the final credit rating for the rated entity or related entity;

(e) the designated rating organization has a direct or indirect ownership interest in a rated entity or related entity;

(f) a rated entity or related entity has a direct or indirect ownership interest in the designated rating organization.

"3.8 The designated rating organization must disclose the actual or potential conflicts of interest it identifies under the policies, procedures and controls referred to in section 3.7.1 in a complete, timely, clear, concise, specific and prominent manner. If the 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.";

(27) by inserting, after section 3.9, the following:

"3.9.1 A designated rating organization must ensure both of the following:

(a) fees charged to rated entities for the provision of credit ratings and ancillary services, as referred to in section 3.5, do not discriminate among rated entities in an unfair manner and have a reasonable relation to actual costs;

(b) fees charged to rated entities for the provision of credit ratings must not depend on the category of credit rating or any other result or outcome of the work performed.";

(28) by inserting, in section 3.10 and after the words "credit rating", the words "or rating outlook";

(29) by replacing section 3.11 with the following:

"3.11 If a designated rating organization is subject to the oversight of a rated entity, or an affiliate or related entity of the rated entity, the designated rating organization must use different DRO employees to conduct the rating actions in respect of that entity, or to develop or modify methodologies that apply to that entity, than those that are subject to the oversight.

"3.11.1 A designated rating organization must adopt, implement and enforce policies and procedures to prevent and mitigate conflicts of interest and to ensure the independence of credit ratings, rating outlooks and DRO employees, including policies and procedures in relation to the matters described in section 3.4. The designated rating organization must periodically monitor and review these policies and procedures in order to evaluate their effectiveness and assess whether they should be updated.";

(30) by inserting, in section 3.12 and after the word "rates", the words "or assigns rating outlooks to,";

(31) by replacing section 3.14 with the following:

"3.14 The designated rating organization must not permit a ratings employee to participate in or otherwise influence the determination of a credit rating or rating outlook if any of the following apply:

(a) the ratings employee or an associate of the ratings employee has beneficial ownership of, or control or direction over, whether direct or indirect, securities, derivatives or exchange contracts of, or in respect of, the rated entity, other than holdings through an investment fund;

(b) the ratings employee or an associate of the ratings employee has beneficial ownership of, or control or direction over, whether direct or indirect, derivatives or exchange contracts of, or in respect of, a rated entity, its affiliates or its related entities, the ownership of which, or control or direction over, causes or may reasonably be perceived as causing a conflict of interest;

(c) the ratings employee or an associate of the ratings employee has, or has recently had, an employment, business or other relationship with, or interest in, the rated entity, its affiliates or related entities that causes or may reasonably be perceived as causing a conflict of interest;

(d) an associate of the ratings employee is a director of, the rated entity, its affiliates or related entities.";

(32) by replacing section 3.17 with the following:

"3.17 If a DRO employee of a designated rating organization becomes involved in any relationship that creates any actual or potential conflict of interest, the DRO employee must disclose the relationship to the designated rating organization's compliance officer. The designated rating organization must not issue a credit rating or rating outlook if a DRO employee has an actual or potential conflict of interest with a rated entity. If such a credit rating or rating outlook has been issued, the designated rating organization must promptly publicly disclose that the credit rating or rating outlook might be affected.";

(33) in section 3.18:

(a) by inserting, in the text preceding paragraph (a) and after the word “if”, the words “one or both of the following apply:”

(b) by replacing, in paragraph (a), the words “entity, or” with the words “entity or assigning it a rating outlook;”;

(34) by replacing sections 4.1 to 4.5 with the following:

“4.1 The designated rating organization must distribute in a timely manner its decisions on credit ratings and rating outlooks regarding the entities and securities it rates.

“4.1.1 A designated rating organization must adopt, implement and enforce 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.

“4.2 A designated rating organization must publicly disclose its policies and procedures for distributing credit ratings, actions, updates, rating outlooks and related reports and for when a credit rating will be withdrawn or discontinued.

“4.3 Except for a credit rating or a rating outlook it discloses only to the rated entity, a designated rating organization must disclose to the public, on a non-selective basis and free of charge, any decision on a credit rating or rating outlook regarding a rated entity that is a reporting issuer or regarding the securities of such an issuer, as well as any subsequent decision to discontinue such a rating, if the decision is based in whole or in part on material non-public information.

“4.3.1 If a designated rating organization 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.

“4.4 In each of its ratings reports in respect of a credit rating or rating outlook, a designated rating organization must disclose all of the following:

(a) when the credit rating was first released and when it was last updated, reviewed or assigned a rating outlook;

(b) the principal methodology or methodology version that was used in determining the credit rating and where a description of that methodology can be found. If the credit rating is based on more than one methodology, or if a review of only the principal methodology might cause investors to overlook other important aspects of the credit rating, the designated rating organization must explain this fact in the ratings report, and include a discussion of how the different methodologies and other important aspects factored into the rating decision;

(c) the meaning of each rating category and the definition of default or recovery, and the time horizon the designated rating organization used when making a rating decision;

(d) any attributes and limitations of the credit rating or rating outlook. If the rating or rating outlook involves a type of financial product presenting limited historical data, such as an innovative financial vehicle, the designated rating organization must disclose, in a prominent place, the limitations of the credit rating or rating outlook;

(e) all significant sources, including the rated entity, its affiliates and related entities, that were used to prepare the credit rating or rating outlook and whether the credit rating or rating outlook has been disclosed to the rated entity or its related entities and amended following that disclosure before being issued.

“4.5 In each of its ratings reports in respect of a credit rating or rating outlook for a structured finance product, a designated rating organization must disclose all of the following:

(a) all information about loss and cash-flow analysis it has performed or is relying upon and an indication of any expected change in the credit rating or rating outlook. The designated rating organization must also disclose the degree to which it analyzes how sensitive a credit rating of a structured finance product is to changes in the designated rating organization's underlying rating assumptions;

(b) the level of assessment the designated rating organization has performed concerning the due diligence processes carried out at the level of underlying financial instruments or other assets of structured finance products. The designated rating organization must also disclose whether it has undertaken any assessment of such due diligence processes or whether it has relied on a third-party assessment and how the outcome of such assessment impacts the credit rating;

(c) whether the issuer of the structured finance product has informed the designated rating organization that it is publicly disclosing all relevant information about the product being rated or whether the information remains non-public.";

(35) by replacing section 4.7 with the following:

"4.7 A designated rating organization must disclose on an ongoing basis information about all debt securities and structured finance products submitted to it for its initial review or for a preliminary rating, including whether the issuer requested the designated rating organization to provide a final rating.";

(36) by inserting, after section 4.8, the following:

"4.8.1 When disclosing the methodologies, models and key rating assumptions referred to in section 4.8, the designated rating organization must include guidance that explains assumptions, parameters, limits and uncertainties surrounding the methodologies and models it uses in its credit rating activities, including simulations of stress scenarios undertaken by the designated rating organization when determining credit ratings, information on cash-flow analysis it has performed or is relying upon and, where applicable, an indication of any expected change in the credit rating. The designated rating organization must prepare the guidance required by this section using plain language.";

(37) by replacing, in section 4.10, the second sentence with the following:

"The designated rating organization must indicate the attributes and limitations of each credit rating and the risks of relying on the credit rating to make investment or other financial decisions. When issuing a credit rating or a rating outlook, the designated rating organization must disclose that the credit rating or rating outlook is the designated rating organization's assessment and should only be relied on to a limited degree. A designated rating organization must prepare the disclosure required by this section using plain language. A designated rating organization 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.";

(38) by inserting, after section 4.10, the following:

"4.10.1 When issuing a credit rating or rating outlook, the designated rating organization must clearly indicate the extent to which the designated rating organization verifies information provided to it by the rated entity. If the credit rating involves a type of entity or obligation for which there is limited historical data, the designated rating organization must disclose this fact and how it may limit the credit rating.

"4.10.2 For any credit rating or rating outlook, a designated rating organization must be transparent with the rated entity and investors about how the rated entity or its securities are rated.";

(39) by replacing sections 4.11 to 4.16 with the following:

"4.11 When issuing or revising a credit rating or a rating outlook, the designated rating organization must provide in its press releases and public reports an explanation of the key elements underlying the rating opinion or rating outlook, including

financial statement adjustments that deviate materially from those contained in the issuer's published financial statements.

“4.12 Before issuing or revising a credit rating or a rating outlook, the designated rating organization must inform the issuer of the critical information and principal considerations upon which a credit rating or rating outlook will be based and afford the issuer a reasonable opportunity to clarify any likely factual misperceptions or other matters that the designated rating organization would want to be made aware of in order to produce an accurate credit rating or rating outlook. The designated rating organization must inform the issuer during the business hours of the issuer. The designated rating organization must duly evaluate the response.

“4.13 Every year, the designated rating organization must publicly disclose data about the historical transition and default rates of its rating categories with respect to the classes of issuers and securities it rates and whether the transition and default rates of these categories have changed over time. If the nature of the rating or other circumstances make a historical transition or default rate inappropriate, statistically invalid, or otherwise likely to mislead the users of the rating, the designated rating organization must explain this. This information must include verifiable, quantifiable historical information about the performance of its rating opinions, organized over a period of time, and, where possible, standardized in such a way so as to assist investors in drawing performance comparisons between different designated rating organizations.

“4.13.1 When disclosing a credit rating or rating outlook, the designated rating organization must include a reference to where the data referred to in section 4.13 can be accessed on its website and a brief explanation of the meaning of that data.

“4.13.2 When disclosing a rating outlook, the designated rating organization must indicate the time period during which a change in the credit rating may occur.

“4.14 For each credit rating, the designated rating organization must disclose whether the rated entity and its related entities participated in the rating process and whether the designated rating organization had access to the accounts, management and other relevant internal documents of the rated entity or its related entities. Each credit rating without that access must be identified as such using a clearly distinguishable colour code for the rating category. Each credit rating not initiated at the request of the rated entity must be identified as such. The designated rating organization must also publicly disclose its policies and procedures regarding unsolicited ratings.

“4.15 The designated rating organization must publicly disclose, in a timely fashion, any material modification to its methodologies, models, key ratings assumptions and significant systems, resources or procedures. Where a reasonable person would consider it feasible and appropriate, disclosure of such material modifications must be made before they go into effect. Any disclosure of such material modifications must be made in a non-selective manner. The designated rating organization must carefully consider the various uses of credit ratings before modifying its methodologies, models, key ratings assumptions and significant systems, resources or procedures.

“4.15.1 If the designated rating organization intends to make a significant change to an existing rating methodology, model or key rating assumption or use a new rating methodology that could have an impact on a credit rating, the designated rating organization must do both of the following:

(a) publish the proposed significant change or proposed new rating methodology on its website together with a detailed explanation of the reasons for, and the implications of, the proposed significant change or proposed new rating methodology;

(b) invite interested persons to submit written comments with respect to the proposed significant change or proposed new rating methodology within a period of at least 30 days after the publication.

“4.15.2 If following the publication referred to in section 4.15.1, the designated rating organization makes a significant change to an existing rating methodology,

model or key rating assumption or issues a new rating methodology that could have an impact on a credit rating, the designated rating organization must promptly publish on its website all of the following:

(a) the revised or new rating methodology, model or key rating assumption,

(b) a detailed explanation of the revised or new methodology, model or key rating assumption, its date of application and the results of the consultation referred to in section 4.15.1;

(c) copies of the written comments referred to in paragraph 4.15.1(b), except in the case where confidentiality is requested by the person who submitted the comment.

"4.15.3 A designated rating organization's disclosures, including those specified in the organization's code of conduct, must be complete, fair, accurate, timely, and understandable to reasonable investors and other expected users of credit ratings.

"4.15.4 A designated rating organization must publicly and prominently disclose, free of charge, all of the following information on its primary website:

(a) the designated rating organization's code of conduct;

(b) a description of the designated rating organization's credit rating methodologies;

(c) information about the designated rating organization's historical performance data;

(d) any other disclosures specified in the provisions of the designated rating organization's code of conduct and securities legislation.

"**B. The treatment of confidential information**

"4.16 The designated rating organization and its DRO employees must take all reasonable measures to protect both of the following:

(a) 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;

(b) the confidential nature of information shared with them by rated entities under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially.

Unless otherwise permitted by a written agreement or required by applicable laws, regulations or court orders, the designated rating organization and its DRO employees must not disclose confidential information, including information about a credit rating action before the credit rating or rating outlook is publicly disclosed or disseminated to subscribers.

"4.16.1 A designated rating organization must consider applicable securities legislation governing insider trading or tipping when dealing with non-public information that it receives from an issuer. A designated rating organization must maintain a list of all persons who have access to 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. For any credit rating action, the list must include applicable DRO employees and any person identified by the rated entity for purposes of the list.";

(40) by replacing sections 4.18 and 4.19 with the following:

"4.18 The designated rating organization and its DRO employees must take all reasonable measures to protect all property and records relating to credit rating activities and

belonging to or in possession of the designated rating organization from fraud, theft, misuse or inadvertent disclosure.

"4.19 The designated rating organization must ensure that the organization and its DRO employees do not engage in transactions in securities, derivatives or exchange contracts when they possess confidential information concerning the issuer of such security or to which the derivative or exchange contract relates, including information about a credit rating action before the credit rating or rating outlook is publicly disclosed or disseminated to subscribers.";

(41) by replacing section 4.21 with the following:

"4.21 The designated rating organization and its DRO employees must not selectively disclose any non-public information about credit ratings, rating outlooks or possible future rating actions of the designated rating organization, except to the issuer or its designated agents.";

(42) by adding, after section 4.23, the following:

"4.24 A designated rating organization must adopt, implement and enforce policies, procedures and controls to ensure all of the following:

(a) compliance with applicable laws governing the treatment and use of confidential or material non-public information;

(b) DRO employees take all reasonable steps to protect confidential or material non-public information from fraud, theft, misuse, or inadvertent disclosure;

(c) compliance with sections 4.16, 4.16.1, 4.19, 4.21 and 4.23;

(d) compliance with the designated rating organization's internal record maintenance, retention and disposition policies, procedures and controls and with laws governing the maintenance, retention and disposition of the designated rating organization's records.

"**C. The treatment of complaints**

"4.25 A designated rating organization must establish and maintain a committee charged with receiving, retaining, and handling complaints from market participants and the public. The designated rating organization must adopt implement and enforce policies, procedures and controls for receiving, retaining, and handling complaints, including those that are provided on a confidential basis. The policies and procedures must specify the circumstances under which a complaint must be reported to one or both of the following:

(a) senior management of the designated rating organization;

(b) the board of directors of the designated rating organization or of a DRO affiliate that is a parent of the designated rating organization.".

7. Form 25-101F1 of the Regulation is amended:

(1) by replacing instruction (4) with the following:

"*(4) Applicants may apply to the securities regulatory authority or, except in Québec, regulator to hold in confidence portions of this form which disclose sensitive financial, personal or other information. The securities regulatory authority or, except in Québec, regulator will consider the application and may determine to accord confidential treatment to those portions to the extent permitted by law.*";

(2) by replacing, in the fifth bullet of item 5, the word "agencies" with the word "organizations";

(3) in item 11:

(a) by inserting, after the words "The total number of ratings employees,", the following:

"● The number of ratings employees allocated to credit rating activities for different asset classes,";

(b) by inserting, after the words "The total number of ratings employees supervisors,", the following:

"● The number of ratings employees supervisors allocated to credit rating activities for different asset classes,";

(4) by replacing the second paragraph of item 13 with the following:

"Include financial information about the revenue of the applicant separated into fees from credit rating services and non-credit rating services, including a comprehensive description of each. In providing this information, disclose the following:

- Revenue from non-credit rating services provided to persons that also obtained credit rating services,

- Revenue from credit rating services for different asset classes, and

- Revenue from credit rating services and non-credit rating services provided to persons located in Canada.";

(5) by inserting, after item 14, the following:

"**Item 14A Pricing Policy**

Disclose the applicant's pricing policy for credit rating services and any ancillary services, including the fee structure and pricing criteria in relation to credit ratings for different asset classes.".

8. This Regulation comes into force on *(insert here the date of coming into force of this Regulation)*.