

## Content

Title : Matters Required to be Included in the Corporate Bylaws of Credit Rating Agencies **Ch**

Date : 2016.04.12

Legislative : 1. Prescribed per 31 May 1997 Public Announcement No. (86)-Taiwan-Finance-Securities-(I)-41836 of the Securities and Futures Commission, Ministry of Finance  
2. Name and full text of nine points amended and issued per 31 January 2011 Order No. Financial-Supervisory-Securities-Corporate-1000003093 of the Financial Supervisory Commission, Executive Yuan; for immediate implementation (original name: Content of Key Provisions of Corporate Bylaws of Credit Rating Agencies)  
3. Full text of 10 points amended per and issued per 12 April 2016 Order No. Financial-Supervisory-Securities-Corporate-1050011779 of the Financial Supervisory Commission; for immediate implementation

Content : Point 1

These Matters Required to be Included in the Corporate Bylaws of Credit Rating Agencies are adopted pursuant to Article 11, paragraph 3 of the Regulations Governing the Administration of Credit Rating Enterprises.

The Corporate Bylaws of Credit Rating Agencies shall include the following matters:

1. Organization structure and department functions.
2. Internal management control system.
3. Internal accounting control system.
4. Personnel allocation, management, and training.
5. Principles and policies guiding business operations, and the fee policy.
6. Procedures, rating scales, standards, and divisions of authority and responsibility applied in assigning ratings.
7. Organization and operation of the rating committee.
8. Rating disclosure and related measures to protect confidentiality.
9. Complaint handling mechanism.
10. Other matters to be included as required by the Financial Supervisory Commission.

Point 2

Organization structure and department functions:

1. Organization structure:
  - A. A credit rating agency shall assign one chairman and one president, several vice-presidents, and a certain number of managers.
  - B. The powers of shareholders, the board of directors, and supervisors shall be exercised in accordance with the corporate bylaws and internal organization rules, except as otherwise required by law or regulation.
2. Department functions: A credit rating agency shall set up rating analysis, risk management, legal compliance, complaint handling, and marketing management departments or functions to be in charge of business implementation. There shall be mutual segregation between the operations of the rating analysis department and those of the marketing management department or of any business that may give rise to conflicts of interests.

Point 3

Internal management control system:

1. Management of finance, personnel, documents, files, and computer systems.
2. Policies relating to the independence of credit ratings, prevention of conflicts of interest, and legal compliance: establish procedures for identifying and preventing conflicts of interests, including at least the internal reporting channels for conflicts of interests arising among the employees, and the relevant mechanisms for handing such situations.
3. Risk management policies: establish management procedures for risk identification, assessment, and monitoring and reporting, including at least operational risk, reputational risk, legal risk, and information security risk.
4. Credit rating procedure management policies: including the operations of the rating committee, the adequacy of the rating models and methodologies and the review procedures, the retention of information relating to credit ratings, confidentiality policies for non-public information, and the complaint handling mechanism.
5. Control policies for information announcement operations: including the control of information announcement under the Article 15 of the Regulations Governing the Administration of Credit Rating Agencies.

Point 4

The internal accounting control system shall include accounting operations, financial operations, and receipts and disbursements.

Point 5

Personnel allocation, management, and training:

1. Plans for staffing and allocation of personnel.
2. Required qualifications for employees and rules for their appointment.
3. An employee code of conduct.
4. Plans for employee education and training: including at least the employee code of conduct, relevant legal compliance, management of conflicts of interests, and confidentiality policies for non-public information. Credit rating agencies shall ensure that the employees have completed the necessary education and training.
5. Personnel rotation policies.
6. Employee compensation policies:
  - A. The compensation scheme of the associated persons shall be submitted for the approval of the board of directors. If it is a branch unit of an internationally recognized credit rating agency in Taiwan, such compensation scheme shall be approved by the responsible person of the agency in the R.O.C.
  - B. The compensation of persons participating in the rating procedures, or with the authority to decide on the rating or to approve the rating method, may not be linked to the revenue from the credit rating business.

Point 6

Principles and policies guiding business operations, and fee policy:

1. Principles for business operations: Shall include the founding purpose of the agency and the objectives and principles to be followed in the course of operations.

2. Business development objectives: Shall include the agency's business goals and the related supporting measures and plans.

3. Fee policy for each business.

Point 7

Procedures, rating scales, standards, and divisions of authority and responsibility applied in assigning ratings:

The credit rating operations of a credit rating agency shall be implemented through the following procedures:

1. Initial credit rating: A credit rating agency shall possess sufficient capacity, information, and resources before undertaking any credit rating case.

2. Data collection:

A. A credit rating agency shall ensure that it uses data of sufficient quantity and reliability in its rating methodologies, models, and assumptions. If the relevant data is limited, the credit rating agency shall note limitations of the analytical data when disclosing the credit rating.

B. When necessary, credit rating agencies may meet with the management of the entity under appraisal or the issuer of an instrument under appraisal.

3. Analysis process:

A. Principal factors to be analyzed include: Industry risk, corporate strategy, business reviews, performance, investment and capitalization, liquidity, and financial flexibility.

B. Analysis methodologies: A credit rating agency shall use rating methodologies that are accurate, systematic, and consistent, and that can also be validated by historical data. The methodologies shall include both quantitative and qualitative analyses.

C. Analysis reports shall be submitted to the rating committee after completion.

4. Submissions to the rating committee for deliberation:

A. The report the credit rating agency submits for deliberation by the rating committee shall have been prepared in conformance with its internal analysis methodology.

B. The credit rating agency shall ensure that the rating result, and the rating report, are consistent with the resolution of the rating committee.

5. Appealing a rating: In the event the entity under appraisal or the issuer of an instrument under appraisal does not agree with the rating results, it shall submit concrete reasons or relevant new information. The rating committee will assess whether to reconvene and undertake a review of its previous resolution.

6. Rating disclosure:

A. The rating results shall be disclosed to the public, except in cases where the rating is not intended for public use.

B. The rating disclosure method and content shall conform with the provisions of Point 9 herein.

7. Surveillance rating, rating adjustment, and rating withdrawal:

A. After the rating committee resolves on a rating, the credit rating agency shall continue to review the rating until the rating is withdrawn.

B. A credit rating agency shall ensure that it possesses sufficient capacity, information, and resources to monitor the risk characteristics of

an entity under appraisal or the assets represented by an instrument under appraisal, and to implement analysis work. When there is a change in a relevant risk characteristic, the credit rating agency shall review the appropriateness of the rating results and make necessary dispositions.

C. A credit rating agency shall establish relevant analysis and handling procedures for rating withdrawal.

8. Assessment and review procedures for rating models and methodologies: A credit rating agency shall assess the appropriateness when adopting and amending credit rating methodologies, models, and key assumptions, and shall periodically review them and make necessary dispositions.

A credit rating agency shall refer to international convention as well as domestic practice when defining credit rating scales and standards (or principles), and shall explain the meaning of each credit rating scale in terms that can be understood by ordinary investors. The credit rating agency shall also establish a work (or operations) manual, to ensure consistency in its operations and for ease of reference.

Point 8

Organization and operation of the rating committee:

1. The size and the number of members of the rating committee.
2. Appointment of rating committee members. A credit rating agency shall ensure that all members of the rating committee have sufficient expertise and experience, that all members are in compliance with Article 22 and Article 23 of the Regulations Governing the Administration of Credit Rating Agencies, and that none are involved in any other conflict of interest as assessed by the credit rating agency.
3. Selection and appointment of the rating committee's convener.
4. Convening of the rating committee.
5. Process and deliberation of rating committee meetings.
6. Resolution and disclosure of rating results.

Point 9

Rating disclosure and related measures to protect confidentiality:

1. The entity under appraisal or the issuer of an instrument under appraisal may request that terms of confidentiality be granted for any content in a credit rating that involves a trade secret.
2. The utilization and disclosure of rating results and related data shall comply with the relevant provisions of the Personal Information Protection Act.
3. In addition to making a public announcement complying with Article 15 of the Regulations Governing the Administration of Credit Rating Agencies, a credit rating agency may also adopt the following methods to disclose rating results:
  - A. Prior to the issuance of rating reports, the entity under appraisal or the issuer of an instrument under appraisal may be notified in order to confirm that rating reports contain no material errors.
  - B. After a credit rating has been confirmed, the rating results may be delivered to credit rating information subscribers, and domestic and foreign news media may be notified.
  - C. When a credit rating result has been confirmed, an analysis report, either comprehensive or summarized, may be published and provided to credit rating information subscribers as a research reference with regard to

credit risks of individual borrowers.

Point 10

Complaint handling mechanism:

1. Establish functions for communicating with market participants and the public, including procedures for receiving, retaining and handling complaints.
2. Any handling or response to a complaint shall be reported for approval by the in-charge personnel at the proper level of authority.

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Data Source : Financial Supervisory Commission Laws and Regulations Retrieving System