NOTICE

TO	**:**	**ALL CONCERNED**
SUBJECT	**:**	**REQUEST FOR COMMENTS ON THE DRAFT MEMORANDUM CIRCULAR ON AMENDMENTS TO THE 2015 IMPLEMENTING RULES AND REGULATIONS OF THE SECURITIES REGULATION CODE FOR THE REVISED GUIDELINES FOR CREDIT RATING AGENCY ACCREDITATION AND SUPERVISION (SRC RULE 39.1.5)**

In its meeting held last 09 July 2026, the Commission En Banc resolved to expose the Draft Memorandum Circular on Amendments to SRC Rule 39.1.5. for public comment.

As part of broader efforts to promote the development and deepening of the corporate bond market, the Draft Memorandum Circular overhauls SRC Rule 39.1.5. to reflect a comprehensive accreditation and supervisory regime for CRAs. The strengthened regulatory framework introduces rigorous oversight across key operational areas, including accreditation requirements, corporate governance, analyst competence and independence, the integrity of the credit rating process, transparency and reporting obligations, and the development and application of rating methodologies. These proposed reforms support a credit rating regime that fosters the trust of both institutional and retail investors, broadening market participation beyond a narrow investor base toward deep and inclusive capital markets.

To assist the Commission in undertaking a thorough and informed policy review, stakeholders are encouraged to review the attached **Consultation Paper** and the Draft Memorandum Circular, and provide comprehensive feedback, including supporting data, analysis, and recommendations. Submissions may address any provision of the draft Memorandum Circular or offer alternative approaches.

Stakeholders are invited to submit comments, inputs and recommendations on or before **24 July 2026** to policyfeedback@sec.gov.ph with subject line:

[Name of Organization] - Comments on CRA Regulation

Issued 10 July 2026.

CONSULTATION PAPER ON PROPOSED AMENDMENTS TO THE 2015 IMPLEMENTING RULES AND REGULATIONS OF THE SECURITIES REGULATION CODE FOR THE REVISED GUIDELINES FOR CREDIT RATING AGENCY ACCREDITATION AND SUPERVISION (SRC RULE 39.1.5.)

Strengthening the Regulatory Framework for Credit Rating Agencies in the Philippines

July 2026

I. CONTEXT AND RATIONALE

1. The Role of Credit Ratings in Capital Market Development

Credit rating agencies (CRAs) perform a foundational function in capital markets: they reduce information asymmetry between issuers and investors by providing independent, publicly available assessments of creditworthiness. This function matters across the full spectrum of investors, but in distinct ways. For institutional investors operating under prudential rules, credit ratings are essential inputs in portfolio construction, risk management, and regulatory compliance. For retail investors, the role is arguably more fundamental: unlike institutions, individual investors typically lack the resources, expertise, and access to conduct independent credit analysis. A credible, publicly available rating is often their primary basis for assessing the credit risk of an instrument before committing their savings. This makes the integrity of ratings a direct investor protection concern, not only a market infrastructure question. For issuers, an accredited rating can be the difference between accessing the bond market and remaining dependent on bank credit. And for the market as a whole, a rating regime that is trusted by both institutional and retail investors is what makes it possible to broaden participation beyond a narrow institutional base which is precisely what a deeper and more inclusive capital market requires.

2. The Case for Strengthening the Regulatory Framework

Given the continued expansion of the Philippine economy and increasing demand for corporate finance, the SEC recognizes the critical role of credit ratings in further deepening and developing the corporate bond market. On the supply side, the capacity of the market to absorb a wider range of issuers — including infrastructure project developers, smaller corporates, and financial institutions — depends materially on investors' confidence that ratings reflect genuine, independent analytical judgment. On the demand side, increased access to credible and independently produced credit ratings can help broaden the investor base to promote financial inclusion for smaller and less sophisticated retail investors. Ratings are the common thread for both these supply and demand side issues — the shared information infrastructure that makes it possible for a wider range of issuers to reach a wider range of investors.

This makes the regulatory framework governing CRAs a capital market development instrument, not merely a compliance exercise. A well-designed CRA regulatory framework achieves three objectives simultaneously: it protects investors by ensuring ratings are credible and consistently produced; it protects the integrity of the market by insulating ratings from issuer influence; and it creates the conditions under which credible CRAs can attract the issuers and investors needed to grow the market.

It is in this context that the SEC is repealing the current SRC Rule 39.1.5. and replacing it in its entirety. The reforms are an integral part of a broader capital market development agenda — one that encompasses measures to expand the range of issuers and instruments that can access the market, deepen institutional and retail investor participation, and strengthen the information infrastructure on which both depend. Strengthening the CRA regulatory framework is not a stand-alone exercise; it is a precondition for the credibility that capital market deepening requires.

A second rationale reinforces the case. The current framework was developed at a time when international standards for CRA regulation were still evolving in the wake of the 2008 global financial crisis. In the intervening decade, the European Union, the United States, Malaysia, India, and other leading jurisdictions have substantially deepened their CRA regulatory frameworks in response to documented governance failures and accumulated market experience. The proposed amendments draw directly on this experience — particularly the EU CRA Regulation, the US requirements for Nationally Recognized Statistical Rating Organizations, and the Securities Commission Malaysia Guidelines on Credit Rating Agencies. The core reforms — on board governance, analyst independence, rating committee composition, compliance, transparency, and reporting — reflect the international consensus on what is required for a credible CRA framework and are aligned with the IOSCO Principles and Methodology.

II. REGULATORY PHILOSOPHY

3. The Regulatory Philosophy Underlying the New SRC Rule 39.1.5.

Accreditation as a Genuine Gatekeeping Mechanism

The most fundamental architectural change in the new SRC Rule 39.1.5. is not any individual requirement but the way the regulatory framework as a whole is structured. Under the current SRC Rule 39.1.5., accreditation and ongoing operating requirements were not systematically connected: a CRA could satisfy the accreditation threshold without demonstrating, at the point of entry, the institutional capacity required to meet the operational standards it would subsequently be held to. The threshold was largely formal — focused on corporate standing and operating track record — rather than substantive.

The new SRC Rule 39.1.5. closes this gap by establishing accreditation as a genuine gatekeeping mechanism. The accreditation requirements in the new SRC Rule 39.1.5.4. now explicitly enumerate what a CRA must demonstrate across every dimension of its operations: financial resources, infrastructure, governance, personnel, methodologies, rating process, conflict of interest management, and reporting and transparency systems. Each of these requirements is cross-referenced to the corresponding detailed operating provisions in the new SRC Rules 39.1.5.5.1. through 39.1.5.10.2. A CRA applying for accreditation must submit concrete supporting documentation demonstrating that it meets — or has a credible plan to meet — each of these requirements from the outset. Accreditation is therefore no longer a one-time entry filter followed by separate ongoing obligations; it is the point at which the CRA's institutional readiness across the full regulatory perimeter is assessed and confirmed.

The practical implication is that the ongoing compliance obligation in the new SRC Rule 39.1.5.4.2. — that a CRA must comply at all times with the accreditation requirements as further detailed throughout the new Rule — is no longer merely declaratory. It is grounded in a substantive pre-entry assessment that gives both the CRA and the Commission a clear and shared understanding of what compliance requires. This architecture makes the regulatory framework more enforceable, more transparent, and more meaningful as a protection for investors and the integrity of the market.

Strengthening Where Needed, With Proportionality Where Warranted

The new SRC Rule 39.1.5. reflects a considered judgment about where the current SRC Rule 39.1.5. was insufficient and where a stronger standard is warranted — and equally, about where a degree of regulatory flexibility is appropriate given the current size and development stage of the Philippine CRA market. These two principles are not in tension; they are complementary features of a framework designed to be both credible and workable.

On the side of strengthening: the new SRC Rule 39.1.5. upgrades requirements across all the dimensions where the evidence of international regulatory experience points to gaps — board governance and independence, fit and proper requirements for owners and key personnel, analyst competence and independence, rating committee composition, internal controls and audit, methodology review, compliance, reporting, and transparency. In each of these areas, the standard proposed is grounded in international best practice and reflects the consensus of leading jurisdictions on what a credible CRA framework requires. The Commission's view is that these standards hold regardless of market size: the risks they address — capture of the analytical function by commercial interests, governance failures at the ownership level, inadequate transparency for investors — are not risks that are less serious in a smaller market.

On the side of proportionality: the new SRC Rule 39.1.5. explicitly acknowledges that certain organizational requirements — notably the establishment of dedicated board-level committees, the internal audit function, the methodology review function, and the full separation of functional groups — may not be operationally practicable for a CRA at the current scale of the Philippine market. In each of these areas, the new Rule includes a proportionality provision: a size-contingent alternative that preserves the underlying governance objective while allowing the organizational form to be adapted. These provisions are not exemptions from the requirement; they are alternative pathways to the same outcome, subject to documentation and board-level accountability.

III. KEY CHANGES

4. Key Changes: Scope and Definitions

Expanded Scope of Application

The current SRC Rule 39.1.5. applied to CRAs engaged by corporations issuing commercial papers or debt securities to the public. The new SRC Rule 39.1.5. expands the scope of application explicitly and materially: it now covers ratings for corporate bonds, commercial paper, structured products, sukuk instruments, covered bonds, sustainability-linked instruments, and any other debt security in the Philippines. This is not merely a drafting clarification. Each of these instrument types carries distinct analytical requirements — different risk drivers, different structural features, different default patterns — and the explicit inclusion of sukuk, covered bonds, and sustainability-linked instruments signals the Commission's intent to regulate the full range of instruments that the capital market development agenda contemplates. CRAs rating structured finance products are additionally subject to supplementary disclosure requirements as may be prescribed by the Commission. The expanded scope ensures that as new instruments develop in the Philippine market, the regulatory perimeter is already in place.

Formal Definitions

The current SRC Rule 39.1.5. contained no definitions section. The new SRC Rule 39.1.5. introduces formally defined terms that do significant regulatory work throughout the framework. The definition of Controller — a person entitled to exercise 15% or more of voting rights, or to appoint a majority of board members, or to direct the business or administration of the CRA — provides the precise threshold that triggers the prior approval requirement for shareholding changes. The definition of Independent Director sets out six specific disqualifying conditions, including a five-year cumulative term limit and a three-year cooling-off for former officers and service providers, creating an enforceable standard rather than a general principle. The definition of Significant Shareholder (5% or more of capital or voting rights) anchors the cross-ownership prohibition and fit and proper requirements for owners. The definition of Rating Analyst and Lead Rating Analyst provides the basis for the competence, rotation, and look-back review obligations. Together, these definitions transform provisions that were previously vague or unenforceable into precise, supervisable obligations.

5. Key Changes: Capital Requirements

The new SRC Rule 39.1.5. introduces a strengthened minimum capital requirement for CRAs. International practice on this point varies considerably. A number of leading jurisdictions — including the European Union and the United States — impose no minimum capital requirement for CRAs, treating methodology quality, governance structure, and fit and proper criteria as the primary regulatory levers for ensuring institutional credibility. Other jurisdictions have taken a different view. Malaysia requires a minimum paid-up capital of RM 10 million (approximately USD 2.1 million) for accredited CRAs; India's SEBI imposes a net worth requirement of INR 25 crore (approximately USD 3 million). The rationale in these jurisdictions is not prudential in the conventional sense — CRAs do not hold public deposits or take on balance-sheet risk in the manner of banks or insurers — but rather functional: capital serves as a credible signal of commitment, and as a resource buffer that enables the CRA to invest in the staff, systems, training, and infrastructure required to produce credible ratings over time.

The new SRC Rule 39.1.5. adopts this approach and sets the minimum capital requirement at PHP 50,000,000.00 at the point of accreditation, rising to PHP 70,000,000.00 three years after accreditation. This calibration reflects two distinct considerations.

The first is financial resilience. A CRA must be able to sustain its operations — including its surveillance obligations across all outstanding ratings — through periods of market stress, when fee income may be compressed and the demand for new ratings may slow. A CRA that is inadequately capitalized is vulnerable to precisely the conditions under which the market most needs reliable and independent ratings. Capital provides the buffer that enables the CRA to continue discharging its obligations without being forced into analytical compromises by financial pressure.

The second is operational scope. The SEC along with other public authorities is pursuing a broad and ambitious capital market development agenda that extends well beyond plain vanilla corporate bonds. The regulatory framework already encompasses sukuk instruments, covered bonds, sustainability-linked instruments, and structured products, with further instrument development anticipated as the market deepens. Each of these asset classes requires specialized analytical capacity — distinct methodologies, sector expertise, data infrastructure, and trained analysts — that takes time and sustained investment to build. A meaningful capital requirement creates the financial foundation for this investment, and signals to the market that the CRA has the resources and institutional seriousness to grow its capabilities in line with the market it serves.

The three-year step-up in the capital requirement is designed to give an applicant CRA a reasonable period to establish its operations and build its revenue base before the higher threshold applies, while ensuring that the requirement scales with the CRA's expected operational footprint as it matures.

6. Key Changes: Shareholding Structure Controls and Fit and Proper Requirements for Controllers

The new SRC Rule 39.1.5. introduces a materially strengthened set of controls over the ownership structure of CRAs — an area where the current SRC Rule 39.1.5. was largely silent. The core provision is that any change to the direct or indirect shareholding structure of a CRA that results in a new Controller, including the creation of a rating holding company, requires the prior approval of the Commission before it takes effect. This is modelled directly on Malaysian practice and reflects the principle that the identity and fitness of those who ultimately control a CRA is a matter of regulatory interest, not merely a corporate formality.

Beyond the prior approval requirement, Significant Shareholders — defined as those holding 5% or more of the capital or voting rights — may not simultaneously hold an equivalent stake in, or exercise control over, any other CRA. This cross-ownership restriction directly addresses the risk of structural conflicts of interest at the ownership level that no amount of conduct regulation can adequately manage.

Critically, the fit and proper requirements in the new SRC Rule 39.1.5. now extend explicitly to Controllers of the CRA — a significant departure from the current SRC Rule 39.1.5., which did not subject controlling shareholders to any formal fitness assessment. A Controller who does not meet the fit and proper criteria — integrity, relevant competence, financial soundness, and absence of disqualifying conflicts of interest — can subvert a CRA's governance from above the board level. Requiring Controllers to satisfy these criteria, and mandating that evidence of compliance be submitted as part of the accreditation process, closes what was a significant structural gap in the existing framework.

7. Key changes: Board Governance

The amendments substantially strengthen the board governance framework. Strong board governance is the primary institutional safeguard against the subordination of analytical integrity to commercial considerations — a risk that is well-documented across CRA markets globally, irrespective of their size or structure.

Board Independence

A majority of directors must be Independent Directors; the Chairman must be an Independent Director. Independent Directors serve fixed, non-renewable terms of up to five years and may only be dismissed for misconduct or underperformance — not for commercial reasons. Their remuneration must not be linked to the business performance of the CRA. These protections guard against board capture by shareholders or management with interests that diverge from rating integrity — a risk that post-crisis regulatory reforms globally identified as a primary governance failure.

Independent Director Oversight Duties

A new provision requires that Independent Directors — individually and collectively — exercise specific oversight over four areas: the development of rating policies and methodologies; the effectiveness of the internal quality control system; the management of conflicts of interest; and compliance and governance processes. Independent Directors must report their opinions on each of these matters to the full board at least every six months, available to the Commission on request. This provision is modelled on EU and Malaysian practice and reflects the international consensus that independent board oversight of methodology and quality control is a non-delegable governance function — distinct from, and complementary to, the rating committee's operational role.

8. Key Changes: Fit and Proper Requirements and Prior Approval

Formal fit and proper criteria now apply across an expanded scope: all directors, the CEO, the Compliance Officer, all Senior Management, all Rating Analysts, and all External Rating Committee Members. Prior written Commission approval is required at least 30 days before appointing any board member, CEO, Compliance Officer, or External Rating Committee member. This ex-ante approval mechanism is considerably more effective than after-the-fact supervisory action in ensuring that key positions are held by qualified, independent individuals.

9. Key Changes: Analyst Standards and Independence

Even where board governance is strong, the rating process can be compromised if commercial pressures can influence the analytical function. The amendments address analyst-level integrity directly, drawing on EU, US, and Malaysian standards.

Competence Standards

Written competence standards are now required by rating category, specifying minimum experience, qualifications, and continuing professional development requirements. Records of qualifications and training must be updated at least annually. A staff training schedule must be submitted to the Commission on an annual basis.

Independence

Several provisions aimed to ensure analysts independence.

First, CRA remuneration policies for Rating Analysts must not link compensation to revenue earned from rated entities. This prohibition must be formally documented and confirmed annually in the Annual Transparency Report. The connection between analyst pay and rated-entity revenue is one of the most direct and well-documented sources of rating inflation bias globally, and its prohibition is now a standard feature of leading regulatory frameworks.

Second, a lead analyst may not serve continuously on any rated entity for more than four years. After rotation, the outgoing lead may not resume that role for the same entity for at least two years. The specific 4/2-year hard limits are drawn from the EU and represent international best practice. Whether this calibration is proportionate to the current depth of the Philippine analyst market is identified as a topic for consultation in Section 16 of this paper.

Finally, where an analyst subsequently joins a rated entity that the CRA rated within the preceding 12 months, the CRA must conduct a look-back review to assess whether the prospect of future employment influenced any prior rating, with findings reported to the Commission within 30 days.

10. Key Changes: Rating Process Integrity

The rating process itself must be insulated from commercial pressure at the point where analytical decisions are made. The amendments strengthen three key mechanisms.

Separation of Functional Groups

The new SRC Rule 39.1.5. requires CRAs to maintain separate functional groups for business development, analytical work, rating administration, and criteria development. One element of this is an absolute requirement with no proportionality exception: the separation between the business development group and the analytical group must be maintained at all times, irrespective of size, since it is the foundational protection against commercial pressure penetrating the rating process. The establishment of the other functional groups and the segregation of responsibilities among them is subject to a proportionality provision — where size makes full implementation impracticable, the CRA must nonetheless demonstrate that the independence and integrity of the rating process is preserved at all times.

Rating Committee Composition

The current SRC Rule 39.1.5. required that no employee with business development responsibilities participate in rating committee decisions — a provision that is preserved in the new SRC Rule 39.1.5. The key change in the new SRC Rule 39.1.5. is the introduction of a clear and enforceable definition of independence for all Rating Committee members. Under the new SRC Rule 39.1.5., all members of the Rating Committee must be independent with respect to the rated entity, and independence is defined by reference to four specific, objective criteria set out in the new SRC Rule 39.1.5.8.1.5.: the member must have no direct or indirect financial interest in the rated entity or its related parties; no current or recent employment, advisory, or business relationship with the rated entity or its related parties within the preceding three years; no immediate family relationship with any director, officer, or major shareholder of the rated entity; and no other relationship that may cause or be perceived as causing a conflict of interest. In addition, two further requirements are introduced that go beyond the current SRC Rule 39.1.5. First, at least one member of the Rating Committee must come from outside the immediate asset class, subsector, or geographic area of the entity under review. This requirement addresses a specific analytical risk: a committee composed entirely of specialists in the same sector or market as the rated entity may share common assumptions, blind spots, or methodological conventions that an outside perspective would challenge. Requiring at least one member with a different analytical background — whether from a different industry sector, a different asset class, or a different geographic market — introduces a structural check on groupthink and ensures that rating decisions are tested against a broader frame of reference. This is distinct from the independence requirement, which addresses the relationship between committee members and the rated entity; the analytical breadth requirement addresses the composition of the committee's collective expertise. Second, no director or controller of the CRA may serve as a member of the Rating Committee. This exclusion closes a governance gap that the current SRC Rule 39.1.5. did not address: a director or controller seated on the rating committee could directly influence analytical decisions in ways that serve ownership or commercial interests, undermining the structural separation between governance and analytical functions that the framework is designed to protect.

This definitional precision is a significant improvement over the current SRC Rule 39.1.5., which did not specify what independence meant in the rating committee context. A requirement for independence without a defined standard is difficult to supervise and easy to satisfy in form while being undermined in substance. By anchoring the independence requirement to specific, verifiable criteria — and requiring rating committee composition and evidence of compliance to be submitted at the accreditation stage — the new SRC Rule 39.1.5. creates a standard that can be meaningfully assessed and enforced. The names and credentials of permanent Rating Committee members must continue to be published on the CRA's website, enabling external scrutiny of compliance.

Withdrawal of Ratings

The current SRC Rule 39.1.5. took a largely prohibitive approach to rating withdrawal: as a general rule, no rating could be withdrawn until the rated instrument had been redeemed in full, and any withdrawal required Commission approval. While the investor-protection rationale for this approach remains valid — a CRA that can withdraw a rating at will, or under issuer pressure, provides much weaker investor protection than one that must maintain surveillance until maturity — the blanket restriction created practical difficulties and did not distinguish between legitimate and problematic grounds for withdrawal.

The new SRC Rule 39.1.5. replaces this with a structured framework that is both more precise and workable. It establishes three circumstances in which a CRA may withdraw a rating without prior Commission approval: where the rated instrument has been redeemed or otherwise extinguished prior to its scheduled maturity; where the issuer has persistently failed to provide the information necessary for surveillance and the CRA has exhausted its best-efforts surveillance obligations; and where the issuer has formally requested withdrawal following termination of the rating agreement. Outside these three circumstances, withdrawal requires Commission approval — which may be granted in exceptional cases involving local market conditions or systemic issues, subject to a possible notice-of-withdrawal period before the withdrawal takes effect.

This taxonomy is an important improvement. It protects investors by making clear that withdrawal for commercial reasons — issuer pressure, fee disputes, or reputational concerns about a likely downgrade — does not fall within any of the permitted categories and therefore requires Commission approval. At the same time, it removes the regulatory friction that attached to clearly legitimate withdrawals, such as early redemption of the rated instrument. The requirement that in all cases the CRA must publish a withdrawal notice stating the reasons and the last assigned rating, and that the withdrawn rating remain visible on the CRA's website with a withdrawal notation for twelve months, ensures that investors are not left without information at the moment of withdrawal. The requirement that CRAs publicly disclose their withdrawal policies in advance provides an additional layer of market accountability.

Surveillance: Rating Outlook, Rating Watch, and Mandatory Review Timelines

The current SRC Rule 39.1.5. imposed a general obligation of continuous surveillance but specified no enforceable timelines or structured monitoring tools. The new SRC Rule 39.1.5. makes two significant improvements. First, it mandates that every rated credit be tracked at least annually and that a rating report be published no later than 15 months after the last annual review. This 15-month outer limit is a hard, supervisable standard — not a best-endeavor expectation — that gives the Commission a concrete basis for enforcement where a CRA allows ratings to go stale. Second, it requires CRAs to implement rating outlook and rating watch as formal tools within their monitoring framework, with defined parameters distinguishing the two in terms of the timeframe and probability of a rating movement. Rating outlooks signal medium-term directional trends; rating watches signal that a rating action is likely within a shorter, specified horizon and require the CRA to set an indicative timeline for finalizing that action. The mandatory adoption of these tools brings the Philippine framework into line with standard international practice and gives investors structured, forward-looking information about rating trajectories — rather than only point-in-time assessments.

11. Key changes: Ancillary Services — Prohibition on Conflicting Activities and Separation Requirements

One of the most important structural protections for rating integrity — and one that was absent from the current SRC Rule 39.1.5. — is a clear framework governing the relationship between a CRA's rating activities and any other commercial activities it may conduct. The new SRC Rule 39.1.5. addresses this directly, drawing on EU and Malaysian practice.

First, the new SRC Rule 39.1.5. makes explicit that providing credit ratings should be the main activity of the CRA. The practical effect is to confirm that accreditation cannot be used to legitimize a ratings operation that is ancillary to another primary business — a structure that would create precisely the conflicts between rating activities and other commercial interests that the framework is designed to prevent. This clarification sets the foundation for the more detailed ancillary services provisions, which give operational content to the principle that ratings must remain the primary function of an accredited CRA.

A further provision reinforces the principle that ratings must remain the primary business of an accredited CRA. The new SRC Rule 39.1.5. establishes that ancillary services must not become the major source of revenue for a CRA. No specific percentage threshold is prescribed; the standard is qualitative — ancillary revenues must not exceed rating revenues in aggregate. This provision directly complements the accreditation-stage clarification that a CRA's main activity must be the provision of credit ratings: that entry-level declaration of purpose is given ongoing operational content by the revenue cap, which ensures that the commercial reality of the CRA's business remains aligned with its licensed function over time. A CRA whose revenues are predominantly derived from non-rating activities has, in practical terms, ceased to be a credit rating agency — and the independence and integrity of its ratings is likely to be compromised by the commercial weight of those other activities. The absence of a fixed percentage threshold reflects a deliberate regulatory choice: the Commission retains the flexibility to assess compliance in light of the full commercial context of the CRA, rather than being bound by a numerical rule that could be gamed at the margin.

The core prohibition is that a CRA may only provide ancillary services that do not give rise to conflicts of interest with its rating activities and do not compromise the independence, integrity, or objectivity of the rating process. Most importantly, consulting, advisory, or structuring services to rated entities — or their affiliates — are expressly prohibited, whether on corporate strategy, legal structure, financial structure, or any other matter. A CRA that advises an entity on its financial structure and simultaneously rates that entity's debt instruments faces an irreconcilable conflict: it has a direct interest in the outcome of its own rating.

Beyond the prohibition, the framework requires effective organizational and operational separation between permissible ancillary services and rating activities. Persons engaged in ancillary services may not participate in or influence rating decisions, and information obtained through ancillary services may not flow into the rating process unless it is also available to the rated entity and properly documented. This information barrier is a standard feature of both EU and Malaysian CRA frameworks.

To give the Commission oversight of compliance, the CRA must submit annually a full list of all ancillary services provided during the year, identifying the nature and client of each service and confirming the absence of a conflict of interest. Where the Commission determines that a particular ancillary service gives rise to a conflict, it may direct the CRA to discontinue it.

12. Key Changes: Internal Controls, Methodology Review, and Compliance Functions

Three new or substantially strengthened internal governance functions are introduced in the new SRC Rule 39.1.5., each targeting a distinct dimension of CRA integrity that was inadequately addressed by the current SRC Rule 39.1.5.

Internal Controls Function and Audit Function

The current SRC Rule 39.1.5. addressed this area through a single "process audit" provision that conflated two conceptually distinct functions: the ongoing management of internal controls, and the independent periodic review of whether those controls are working. The new SRC Rule 39.1.5. separates them clearly, and treats them differently in terms of scope and conditionality.

The internal controls obligation is universal and unconditional. Every CRA, regardless of size, must maintain effective internal controls to ensure that its rating policies, procedures, and best practices are consistently implemented across all rating activities. Critically, the design and operation of this function is the responsibility of senior management, and must be commensurate with the nature, scale, and complexity of the CRA's operations. This framing deliberately avoids prescribing a specific organizational structure: it establishes the objective — consistent implementation of rating policies — and holds senior management accountable for achieving it through arrangements appropriate to the CRA's size. A small CRA with a simple structure need not establish a dedicated internal controls unit; but it must be able to demonstrate that its controls are effective and that management has taken responsibility for their design.

The internal audit function, by contrast, is conditional. Only a CRA of sufficient size and complexity is required to establish a dedicated internal audit unit, independent of management, to periodically review the effectiveness of internal controls and compliance arrangements. Where this function exists, it must report directly to the board audit committee — not to any executive officer. Where a dedicated unit is not practicable, the board audit committee must satisfy itself at least annually that adequate alternative arrangements are in place, and those arrangements must be documented in the operations manual. This is an explicit proportionality provision: the governance objective — independent board-level assurance that internal controls are working — is non-negotiable, but the organizational form through which it is achieved can be adapted to the CRA's circumstances.

The distinction matters for how the Commission will approach supervision. For internal controls, the question is whether senior management has designed and operates a system that is fit for the CRA's scope of activities — a judgment call that supervisors will assess through off-site review of the operations manual and on-site inspection of how rating processes are actually followed. For the audit function, the question for larger CRAs is whether an independent review mechanism exists and reports to the right level; and for smaller CRAs, whether the board audit committee has satisfied itself that alternative arrangements are adequate. These are distinct supervisory inquiries that the conflated provision of the current SRC Rule 39.1.5. made difficult to conduct cleanly.

Methodology Review Function

The new SRC Rule 39.1.5. introduces a mandatory methodology review function with no equivalent in the current SRC Rule 39.1.5. This is an entirely new institutional mechanism: a ring-fenced function responsible for periodically reviewing all rating methodologies, models, key assumptions, and benchmarks, with findings reported directly to the Independent Directors of the board. The persons discharging the review function must not have participated in producing the ratings under review, ensuring genuine independence of assessment.

At minimum, a full review of all rating methodologies must be conducted at least once every two years, with an expedited review triggered by any proposed material change. The function must also assess whether existing methodologies are being applied consistently across similar asset classes and instrument types. Where the CRA's size makes a permanently ring-fenced unit impracticable, the requirement may be satisfied by designating qualified persons on a periodic basis, subject to conditions that preserve the independence and directness of reporting. This too is an explicit proportionality provision.

The methodology review function is a direct institutional response to one of the most persistent documented failures in CRA governance globally: the absence of any meaningful internal check on whether methodologies are being applied consistently and remain fit for purpose over time. Its introduction, reporting to Independent Directors rather than to management, is a structural safeguard that no amount of public disclosure or external scrutiny alone can replicate.

Compliance Function

The compliance function existed under the current SRC Rule 39.1.5., but the new SRC Rule 39.1.5. makes two significant changes. First, the Compliance Officer must now report directly to the board — correcting the current SRC Rule 39.1.5., which permitted reporting to the CEO or president. Second, the Compliance Officer's remuneration must not be linked to the business performance of the CRA, and the Officer must not be involved in rating activities. These requirements directly address the conflict of interest that arises when the person responsible for flagging regulatory breaches is financially dependent on, or operationally subordinated to, the management whose conduct they are meant to oversee.

13. Key Changes: Reporting Requirements

Licensing and governance requirements establish what a CRA must do and how it must be structured. Reporting requirements give the Commission the tools to verify that CRAs are actually meeting those obligations — and to do so proactively, before problems crystallize into market failures, rather than reactively after the fact. The draft proposes a comprehensive, multi-layered reporting framework that generates the evidentiary base for ongoing supervisory engagement. It is therefore not merely an administrative exercise: it is the foundation of effective supervision and enforcement.

Annual Transparency Report

A new Annual Transparency Report, due within four months of each financial year-end, must include: the CRA's legal structure and ownership, including all significant shareholders; a description of its internal quality control system; staff allocation statistics by asset class; revenue data including a breakdown between rating fees and ancillary services; a list of the ten largest clients by gross revenue (treated as confidential regulatory information submitted to the Commission); and confirmation that analyst remuneration is not linked to rated-entity revenue. This report gives the Commission an annual window into the CRA's governance, staffing, commercial relationships, and compliance posture.

Historical Default Rate and Transition Matrix Data

Full historical default rate data and annual rating transition matrices must be submitted together with the Annual Transparency Report. These datasets are the empirical foundation for supervisory assessment of rating quality over time. By requiring their systematic submission, the Commission acquires the data needed to detect patterns that may indicate inflation bias, excessive conservatism, or inconsistency in rating standards — trends that would not be visible from individual rating actions alone.

Other Annual Reporting

In addition to the Annual Transparency Report and the default rate and transition matrix data, the new SRC Rule 39.1.5. requires three further annual submissions. First, audited financial statements must be submitted within six months of the close of each financial year — providing the Commission with independently verified financial information on the CRA's position and viability. Second, a full list of all ancillary services provided during the year, due within one month of year-end, together with confirmation of the absence of conflicts of interest — giving the Commission oversight of the CRA's commercial activities beyond its rating function. Third, a staff training schedule listing all training programs attended or planned for rating analysts and key staff — allowing the Commission to assess whether the CRA is investing adequately in its analytical capacity.

Quarterly Reporting

Quarterly reports are due within fourteen business days after the end of each quarter and cover three areas: all rating actions and rating outlook changes during the quarter, including initial ratings, upgrades, downgrades, affirmations, placements on rating watch, and withdrawals; all entities or instruments on rating watch and subsequent actions taken; and movements of senior management and rating analysts. This quarterly flow of information gives the Commission a current and continuous picture of the CRA's rating activity and personnel — enabling the Commission to detect patterns or developments that warrant supervisory attention between annual reporting cycles.

Event-Based Reporting

Event-based reporting covers sharp downgrades of three or more notches in a single action, rating changes within six months of an initial rating, and frequent rating actions on a single issuer — each requiring a written explanation within 14 business days. Immediate notification is required for vacancies in the CEO or Compliance Officer positions, and within 14 calendar days for shareholding changes. These triggers give the Commission early warning of events that may signal analytical weakness, governance stress, or structural change — enabling supervisory engagement at the point where it can be most effective.

14. Key Changes: Transparency Requirements

Transparency requirements serve a fundamentally different purpose from reporting requirements, though the two are complementary. Where reporting gives the Commission the tools for supervisory oversight, transparency activates market discipline — the accountability mechanism that operates through the judgments of investors, issuers, analysts, and potential market entrants, rather than through regulatory action alone.

Market discipline is a powerful and cost-effective complement to regulatory supervision. When investors can access and assess a CRA's track record — its historical default rates, its rating transition patterns, its methodology frameworks, its governance structure — they are able to form independent judgments about the credibility and consistency of its ratings. A CRA whose ratings are consistently inflated relative to subsequent default experience, or whose methodology frameworks are opaque or inconsistently applied, will face reputational consequences in the market that regulatory action alone cannot fully replicate. Public transparency creates this accountability in a way that confidential regulatory reporting cannot.

Historical Default Rates and Transition Matrices

Annual publication on the CRA's public website, within five business days of submission to the Commission, of full historical default rate data and rating transition matrices. These datasets create a publicly verifiable empirical record of rating performance over time. Investors and analysts can use them to assess whether the CRA's ratings are a reliable predictor of credit outcomes — the fundamental question of rating quality. Their public availability also provides the empirical track record that institutional investors need to assess the credibility of the Philippine rating environment.

Rating Reports and Outlooks

All rating reports and outlooks — including rationale, key assumptions, sensitivity analyses, and critical rating factors — must be freely available on the CRA's public website. Initial rating reports must be published before the rated instrument is issued. This pre-issuance publication requirement ensures that investors can evaluate the analytical basis of a rating before committing capital, reducing the information asymmetry at the moment it matters most. It also subjects the CRA's analytical work to external scrutiny on a transaction-by-transaction basis.

Governance and Ownership Disclosure

The public portions of the Annual Transparency Report must be published on the CRA's website, including its legal structure and ownership, quality control systems, staff allocation, and remuneration policies. The names and credentials of permanent rating committee members must be published. Major shareholder conflicts must be disclosed. This governance transparency allows market participants to assess whether the structural conditions for rating independence are in place — not just whether the CRA asserts that they are.

Methodology Frameworks and Code of Conduct

Complete methodology frameworks, key criteria, and assumptions for each sector and instrument type must be freely available on the CRA's website. The CRA's code of conduct, including its adoption of the IOSCO CRA Code and any stated departures, must be publicly disclosed. This enables market participants, academics, and other regulators to scrutinize the analytical framework being applied — a form of external peer review that complements the Commission's formal supervisory function.

15. Key changes: Transitional Arrangements

The new SRC Rule 39.1.5. recognizes that a number of the requirements it introduces represent a meaningful step up from the obligations imposed by the current SRC Rule 39.1.5. CRAs currently accredited under the existing framework will need time to adjust their governance structures, staffing arrangements, internal controls, and reporting processes to meet the new standards. A transition period that is too short would either force superficial compliance — with form substituted for substance — or create operational disruption that is not in the interest of the issuers and investors who depend on the continuity of rating services.

Accordingly, the new Rule provides that CRAs accredited as of its effectivity date must comply with all new requirements no later than twelve months after the Circular takes effect. twelve months is considered sufficient time for a CRA that approaches the transition in good faith to make the necessary structural, personnel, and procedural changes across the full range of requirements.

However, the twelve-month window is not unconditional. Within three months of the Circular's effectivity, each currently accredited CRA must submit to the Commission a compliance plan detailing: the specific requirements with which it does not yet fully comply; the concrete steps it will take to achieve compliance; the timeline for each step; and the persons responsible for implementation. This plan requirement serves two purposes. First, it creates an early and structured accountability mechanism: a CRA that is required to commit its transition steps to writing within the first three months is far less likely to treat the twelve-month window as a period of inaction. Second, it gives the Commission an early supervisory window into each CRA's starting position and transition trajectory, enabling targeted follow-up where plans appear inadequate or progress stalls. A credible and detailed compliance plan is itself an indicator of institutional seriousness; its absence, or a plan of insufficient quality, will itself be a supervisory signal.

IV. CONSULTATION AND NEXT STEPS

16. Invitation to Comment

The Securities and Exchange Commission invites written comments on the proposed amendments from all interested parties, including currently accredited CRAs, issuers of corporate bonds and other rated instruments, institutional investors, market intermediaries, legal practitioners, and academics. Comments must be submitted to the Commission on or before **24 July 2026**.

While comments are welcome on any aspect of the proposed amendments, the Commission draws attention to the following questions as areas where stakeholder input would be particularly valuable in finalizing the framework.

A. **Proportionality: coverage and calibration.** The new SRC Rule 39.1.5. includes proportionality provisions in a number of areas — notably the functional separation of rating groups, the establishment of board-level committees, the internal audit function, and the methodology review function — where the regulation acknowledges that the size and structure of a CRA may make full implementation impracticable and provides for alternative arrangements. The Commission invites comment on whether these proportionality provisions are appropriately targeted: are there additional requirements in the Circular where a similar size-contingent approach would be warranted? Conversely, are there areas where the existing proportionality carve-outs are too broad and risk diluting protections that should apply regardless of size?
B. **Lead analyst rotation: hard limit versus best-endeavor.** The proposed four-year maximum tenure with a two-year cooling-off period for lead analysts is drawn from EU CRA III. The Commission invites comment on whether this hard limit is operationally feasible given the current size of the Philippine analyst pool, or whether a best-endeavor approach — as applied in Malaysia — would be more appropriate at this stage of market development, with a hard limit introduced as the analyst base deepens.
C. **Unsolicited-to-interactive transition: two-year minimum period.** The new SRC Rule 39.1.5. preserves the requirement from the current SRC Rule 39.1.5. that a minimum of two years must elapse between a CRA initiating coverage of an issuer through an unsolicited rating and the first interactive rating of the same issuer. The rationale is to prevent a CRA from using conservative unsolicited ratings as a commercial lever to pressure issuers into engaging for paid interactive ratings. The Commission invites comment on whether this two-year minimum remains appropriately calibrated, or whether it creates friction that is disproportionate in a market where the number of ratable issuers is limited and where building a track record of unsolicited coverage serves a legitimate market development function.
D. **Clarity and completeness of accreditation documentation requirements.** The new SRC Rule 39.1.5. sets out a detailed list of documents and evidence that a CRA must submit to demonstrate compliance with accreditation requirements at the point of application. The Commission invites comments on whether these documentation requirements are sufficiently clear and complete: are there areas where the required documentation is ambiguous, where the standard of evidence expected is unclear, or where additional guidance from the Commission would be helpful in preparing a compliant application? The Commission is equally interested in views on whether any of the documentation requirements are unnecessarily burdensome relative to their regulatory purpose.

The Commission will consider all comments received before finalizing the amendments. Respondents are encouraged to be specific: comments that identify a concrete concern and propose an alternative formulation are more useful to the Commission than general observations. Where a respondent requests confidential treatment of its submission, the Commission will endeavor to accommodate that request, but respondents should be aware that submissions may be subject to disclosure requirements under applicable law.

SEC MEMORANDUM CIRCULAR NO. ___
Series of 2026

TO	**:**	**ALL CONCERNED**
SUBJECT	**:**	**AMENDMENTS TO THE 2015 IMPLEMENTING RULES AND REGULATIONS OF THE SECURITIES REGULATION CODE FOR THE REVISED GUIDELINES FOR CREDIT RATING AGENCY ACCREDITATION AND SUPERVISION (SRC RULE 39.1.5.)**

WHEREAS, Section 5 of the Securities Regulation Code empowers the Commission to prescribe rules and regulations necessary to carry out the provisions of the Code, including rules governing the accreditation and supervision of credit rating agencies (CRAs) and the integrity of credit assessments used in the Philippine capital markets;

WHEREAS, well-functioning CRAs perform a foundational function in capital market development by reducing information asymmetry between issuers and investors, enabling a wider range of issuers to access the public bond market and a wider range of investors—including retail investors—to assess credit risk with confidence;

WHEREAS, the integrity and independence of credit ratings is therefore a direct investor protection concern and a precondition for the credibility that a deeper and more inclusive corporate bond market requires;

WHEREAS, the current regulatory framework for CRAs, established under SRC Rule 39.1.5., was developed at a time when international standards for CRA regulation were still evolving after the 2008 global financial crisis, and subsequent developments in leading jurisdictions and the IOSCO Principles and Methodology for CRAs now warrant an amendment of the Philippine framework to ensure alignment with current international standards;

WHEREAS, the proposed amendments aim to align with internationally recognized standards by strengthening the requirements related to board governance and independence, Fit and Proper requirements for owners and key personnel, analyst qualifications, rating committee processes, internal controls, methodology review, and regulatory reporting;

WHEREAS, the proposed amendments strengthen the independence of CRAs by amending the provisions related to analytical judgments and criteria that are within the professional domain of the CRAs, with requirements that protect the process and governance conditions under which those judgments are made, without prescribing their content;

WHEREAS, the Commission has determined that these amendments are necessary, appropriate, and in the public interest, that they will strengthen investor protection and market integrity, and that they are an integral component of the Commission's broader corporate bond market development agenda;

NOW THEREFORE, BE IT RESOLVED as it is hereby resolved, that SRC Rule 39.1.5., is hereby amended in its entirety as follows.

Section 1. Amendment of Current SRC Rule 39.1.5. (Rules Governing Credit Rating Agencies) to strengthen the regulatory framework governing credit rating agencies, including accreditation requirements, corporate governance, analyst competence and independence, the integrity of the credit rating process, transparency and reporting obligations, and the development and application of rating methodologies.

SRC Rule 39.1.5. of the 2015 IRR of the SRC is hereby amended to introduce a modernized regulatory framework governing credit rating agencies. The reforms are intended to: (i) establish a more robust and transparent accreditation framework that serves as an effective gatekeeping mechanism by ensuring that only institutions with the requisite capacity to issue credible and reliable credit ratings are accredited; (ii) strengthen corporate governance and board independence to reinforce institutional oversight and safeguard the objectivity and integrity of the credit rating process from commercial influence; (iii) enhance analyst competence, independence, and accountability to promote consistency, rigor, and analytical quality in the conduct of credit ratings; (iv) reinforce the integrity of the credit rating process through governance and control measures that strengthen compliance functions and effectively manage conflicts of interest; (v) clarify and expand reporting and transparency obligations to enable investors and other market participants to make more informed assessments of credit ratings; and (vi) transition from a prescriptive approach to the regulation of credit rating methodologies toward a principles-based framework centered on governance, rating process integrity, and disclosure.

The new SRC Rule 39.1.5. reads as follows:

39.1.5. Rules Governing Credit Rating Agencies

39.1.5.1. Applicability

39.1.5.1.1. These Guidelines shall apply to credit rating agencies (CRAs) and, where applicable, the CRA holding company, that issue ratings for securities to include corporate bonds, commercial paper, structured products, sukuk instruments, covered bonds, sustainability linked instruments, and any other debt security in the Philippines. CRAs issuing ratings on structured finance products must comply with additional disclosure requirements as may be prescribed by the Commission. These Guidelines shall likewise apply to credit ratings assigned to issuers where such ratings are issued in connection with or for the purpose of offering, issuing, listing, monitoring, or trading of such debt securities.

39.1.5.2. Definitions

For purposes of these Guidelines:

39.1.5.2.1. ***Controller,*** in relation to a CRA, means a holding company of the CRA, or a person who,

39.1.5.2.1.1. Is entitled to exercise, or control the exercise of, not less than fifteen percent (15%) of the votes attached to the voting shares of a CRA;

39.1.5.2.1.2. Has the power to appoint or cause to be appointed a majority of members of the Board of Directors of a CRA; or

39.1.5.2.1.3. Has the power to make or cause to be made, decisions in respect of the business or administration of a CRA, and to give effect or cause them to be given effect to such decisions.

39.1.5.2.2. ***CRA*** means any corporation principally and regularly engaged in the business of performing credit evaluation of corporations and business projects or of debt issues with the intention of assessing the overall creditworthiness or of ascertaining the willingness and ability of the issuer to pay its financial obligations as they fall due, and which assessment is translated by credit ratings assigned periodically and publicly announced.

39.1.5.2.3. ***External Member,*** in relation to the CRA rating committee, means a person who:

39.1.5.2.3.1. Is not an employee of the CRA nor of any of its corporations; and

39.1.5.2.3.2. Meets all other independent requirements for a rating committee member as prescribed under these rules.

39.1.5.2.4. ***Independent Director,*** in relation to the Board and its committees, means a director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement. Specifically, an independent director is one who:

39.1.5.2.4.1. Is not, and has not been within the last three (3) years, an officer of the CRA, its rating holding company, or any related corporation thereof;

39.1.5.2.4.2. Is not a shareholder of the CRA, its rating holding company, or any related corporation thereof;

39.1.5.2.4.3. Does not have a family relationship with any director, shareholder, or officer of the CRA, its rating holding company, or any related corporation thereof;

39.1.5.2.4.4. Is not acting as a nominee or representative for any director or shareholder of the CRA or its rating holding company;

39.1.5.2.4.5. Has not been engaged as an adviser, consultant, or service provider to the CRA, its rating holding company, or any related corporation thereof, whether directly or through a firm of which the person is a partner, director, or major shareholder, within the last three (3) years;

39.1.5.2.4.6. Has not engaged in any transaction with the CRA, its rating holding company, or any related corporation thereof that exceeds the materiality threshold as may be determined by the Commission, within the last three (3) years; and

39.1.5.2.4.7. Has not served as an independent director of the CRA or its rating holding company for a cumulative period exceeding five (5) years, which shall not be renewable.

39.1.5.2.5. ***Rating Analyst*** means a person who performs analytical functions that are necessary for the issuing of a credit rating. In addition, the ***Lead Rating Analyst*** is the person with primary responsibility for preparing a credit rating or for communicating with the issuer regarding a credit rating.

39.1.5.2.6. ***Rating Holding Company,*** means a holding company whose core business is rating services of a CRA and derives more than 50% of its consolidated revenue or profit from a CRA, or that invests more that 50% of its assets in the CRA over a period of three consecutive years.

39.1.5.2.7. ***Related Entity*** means any person or entity that directly or indirectly controls, is controlled by, or is under common control with another entity, including subsidiaries, affiliates, holding companies, and any entity in which a person holds a significant ownership or voting interest.

39.1.5.2.8. ***Senior Management,*** in relation to a CRA, means the chief executive officer and any other person primarily responsible for the management and operations of the CRA, including but not limited to, the Chief Rating Officer, the Chief Operating Officer, and the Chief Financial Officer by whatever title those positions may be called.

39.1.5.2.9. ***Significant Shareholder*** means any person who directly or indirectly holds five percent (5%) or more of the capital or voting rights of a CRA or its holding company.

References to ‘days’ in these Guidelines will be taken to mean calendar days unless otherwise stated.

39.1.5.3. Scope and Limitations

39.1.5.3.1. Only CRAs accredited by the Commission may provide credit ratings for corporate bonds and other instruments as defined in SRC Rule 39.1.5.1, or credit ratings on issuers in connection with such instruments.

39.1.5.3.2. The accreditation of a CRA does not relieve it from its liabilities and responsibilities.

39.1.5.3.3. The Commission shall not be liable for any liability or loss that may arise from the selection of the said CRA by any issuer.

39.1.5.3.4. The accreditation of a CRA remains valid until suspended or revoked by the Commission after due notice and hearing.

39.1.5.3.5. No person or entity must, under pain of sanctions under the Code, hold itself out as an accredited CRA or otherwise regulated in providing credit rating services unless it has been accredited by this Commission under these Guidelines.

39.1.5.4. Accreditation Requirements and Process

39.1.5.4.1. Requirements for Accreditation

39.1.5.4.1.1. A CRA must comply with the following requirements to qualify for accreditation:

i. It must be a stock corporation whose main activity is the provision of credit ratings;

ii. It must have sufficient financial resources to operate independently and to withstand economic and financial pressures as further detailed in SRC Rule 39.1.5.5.1.;

iii. It must have sufficient resources and adequate infrastructure, information systems, and security and contingency arrangements to enable it to conduct its services effectively as further detailed in SRC Rule 39.1.5.5.1.;

iv. It must have a shareholding and governance structure that enables it to carry out its functions independently and objectively as further detailed in SRC Rules 39.1.5.5.2. to 39.1.5.5.4.;

v. It must have sufficient qualified officers and personnel that enable it to conduct rating activities as further detailed in SRC Rules 39.1.5.5.5. and 39.1.5.5.6.;

vi. It must have rigorous, systematic, and continuous rating criteria and methodologies that are applied consistently and are subject to validation based on historical experience, including back-testing as further detailed in SRC Rules 39.1.5.6.1. and 39.1.5.6.2.;

vii. It must have an organizational structure that supports the independence and integrity of ratings and the rating process, as further detailed in SRC Rules 39.1.5.6.3. to 39.1.5.6.5.;

viii. It must have robust policies and procedures to ensure the consistent and fair application of the rating methodologies through the rating process as further detailed in SRC Rules 39.1.5.6.6. to 39.1.5.7.3.;

ix. It must have robust policies and procedures in place to appropriately manage conflict of interest and ensure compliance with its obligations as further detailed in SRC Rules 39.1.5.8.1. to 39.1.5.9.4.;

x. It must have systems and procedures in place to meet its regulatory reporting obligations to the Commission and its transparency obligations to the public as further detailed in SRC Rules 39.1.5.10.1. and 39.1.5.10.2.

39.1.5.4.1.2. For purposes of accreditation, the CRA must submit the following supporting documents:

i. Copies of the company's Articles of Incorporation and By-Laws;

ii. A detailed Business Plan covering the scope of rating activities, target markets, and revenue model and identifying any other business activity that it would carry out;

iii. Information on its infrastructure, data systems, and submission of a Business Continuity Plan as required under SRC Rule 39.1.5.5.1.;

iv. List of shareholders and their corporate affiliations, including for each significant shareholder a sworn declaration confirming the absence of disqualifying interest in any other CRAs as required under SRC Rule 39.1.5.5.2., and for each controller a document demonstrating compliance with Fit and Proper requirements under SRC Rule 39.1.5.5.5.;

v. Evidence of board composition complying with SRC Rules 39.1.5.5.2. to 39.1.5.5.4., including a list of Independent Directors with supporting credentials and their proposed fixed terms, and a Manual of Corporate Governance;

vi. Description of personnel and staffing arrangements, including sworn statements of qualifications, experience, independence, and absence of disqualifying conditions for all personnel required under SRC Rule 39.1.5.5.5.;

vii. Description of the CRA organizational structure, including the functional groups established under SRC Rule 39.1.5.6.3.;

viii. Complete description of proposed rating methodologies, criteria, rating scales and symbols, and rating processes;

ix. Disclosure of affiliations, training, assistance, or support it receives from international rating agencies, if any;

x. Rating committee composition, including sworn statements of qualifications, experience, independence, and absence of disqualifying condition as required in SRC Rule 39.1.5.6.5.;

xi. Copy of the model written agreement with issuers as required under SRC Rule 39.1.5.6.6.;

xii. A Code of Conduct as required under SRC Rule 39.1.5.8.3.;

xiii. An Operations Manual detailing all the policies and procedures required under these rules, including those relating to the rating process and separation of functions, rating fee guide for all products, conflict of interest, confidentiality, compliance, and business continuity.

39.1.5.4.1.3. An applicant may request confidentiality of the foregoing information except information required to be public as per SRC Rule 39.1.5.10.2.

39.1.5.4.1.4. All applications for accreditation must be accompanied by an initial filing fee of Fifty Thousand Pesos (Php50,000.00) or such amount as the Commission may determine through its Scale of Fees and Charges.

39.1.5.4.1.5. An applicant must ensure that the information set forth in their application form and all documents appended thereto are current, true, and correct.

39.1.5.4.1.6. An annual fee of Fifteen Thousand Pesos (Php15,000.00) or such amount as the Commission may determine, must be paid yearly at least forty five (45) days prior to the anniversary date of the CRA's accreditation. If such annual fee is not paid, the registration of the CRA shall be suspended until payment is made, provided that if the same is not paid prior to the thirtieth (30th) day after the required payment date, such accreditation shall be automatically terminated and any issuer which has been rated by such rating agency must be required to obtain a new credit rating within two (2) months after notification by such agency of such termination.

39.1.5.4.1.7. The Commission must process a completed accreditation application and communicate its decision within one hundred twenty (120) calendar days after receipt of a complete application. The Commission may request additional information or documents from the applicant within this period, in which case the timeline shall be suspended from the day of request until the date of receipt of the applicant's complete response. An application shall be considered complete when the Commission confirms in writing that all required documents and information have been received.

39.1.5.4.2. Ongoing Compliance

A CRA must comply at all times with the accreditation requirements as set forth in SRC Rule 39.1.5.4.1 and further detailed in SRC Rules 39.1.5.5.1 through 39.1.5.10.2.

39.1.5.5. Organizational Requirements

39.1.5.5.1. Resources

39.1.5.5.1.1. A CRA must have a minimum capital of Fifty Million Pesos (Php 50,000,000.00) at the moment of accreditation, and of Seventy Million Pesos (Php 70,000,000.00) three years after the effective day of accreditation. The Commission may adjust this minimum based on inflation.

39.1.5.5.1.2. A CRA must ensure that it has personnel with adequate competence and skills in connection with the type of products that it is rating. In addition, the CRA shall have a well-planned training program for all its employees. A CRA shall target each year a minimum number of training days for all employees and centrally monitor them to ensure programs are fully implemented.

39.1.5.5.1.3. A CRA must have adequate infrastructure and information systems to provide reliable rating services and maintain its credit rating operations and facilities with adequate security, system capacity, and contingency arrangements (including a Business Continuity Plan).

39.1.5.5.2. Shareholding Structure

39.1.5.5.2.1. A CRA must maintain a shareholding structure that enables it to carry out its functions independently and objectively. The creation of a credit rating holding company, as well as any change to the direct or indirect shareholding structure of a CRA, that results in a new Controller requires the prior approval of the Commission before it takes effect.

39.1.5.5.2.2. Any Significant Shareholder of a CRA may not simultaneously hold five percent (5%) or more of the capital or voting rights—collectively either through direct or indirect shareholding—nor exercise control over any other CRA. Where a person inadvertently becomes subject to this prohibition, it must notify the Commission within fourteen (14) days and must divest the conflicting interest within six (6) months.

39.1.5.5.3. Board Composition

39.1.5.5.3.1. A majority of the members of the Board of Directors of the CRA must be Independent Directors. The Chairman of the Board of Directors must be an Independent Director.

39.1.5.5.3.2. Independent Directors must serve for a fixed, pre-agreed term not exceeding five (5) years, which shall not be renewable. An Independent Director may only be dismissed for misconduct or professional underperformance, and not for reasons related to the business interests or commercial strategy of the CRA. The remuneration of Independent Directors must not be linked to the business performance of the CRA, and must be structured so as to ensure the independence of their judgment.

39.1.5.5.3.3. In addition to their general board responsibilities, Independent Directors must individually and collectively exercise specific oversight over the following matters: (a) the development of the CRA's rating policies and the methodologies used in its rating activities; (b) the effectiveness of the internal quality control system in relation to rating activities; (c) the effectiveness of measures and procedures instituted to ensure that conflicts of interest are identified, eliminated, managed, and disclosed; and (d) the compliance and governance processes. Independent

Directors must report their opinions on each of these matters to the full board periodically (at minimum once every six (6) months), and must make such opinions available to the Commission.

39.1.5.5.3.4. Directors must collectively possess adequate competence, experience, and expertise in credit analysis, financial markets, corporate governance, law, or other relevant fields.

39.1.5.5.4. Mandatory Board Committees

The CRA must establish the following two board-level committees: an Audit Committee and a Governance and Risk Management Committee. Each committee must have a majority of Independent Directors as members and must be chaired by an Independent Director. Each committee must have written terms of reference approved by the full board. A CRA that grows to a size where the separation of functions becomes operationally practicable may establish additional committees with the prior notification of the Commission.

39.1.5.5.5. Fit and Proper Requirements

39.1.5.5.5.1. The following persons related to the CRA must meet the requisite Fit and Proper criteria:

i. Any Controller;

ii. All members of the Board of Directors;

iii. The Chief Executive Officer and all other Senior management;

iv. All independent members of the Rating Committee;

v. All Rating Analysts; and

vi. The Compliance Officer.

39.1.5.5.5.2. A person is Fit and Proper if he or she possesses all of the following:

i. Integrity, honesty, and good character, with no record of material dishonesty, fraud, or serious criminal conviction;

ii. Relevant professional qualifications, skills, knowledge, and experience commensurate with the responsibilities of the position;

iii. Financial soundness and the ability to discharge financial obligations;

iv. No conflict of interest, whether actual or perceived, that would compromise the independent exercise of duties; and

v. Compliance with all applicable laws, rules, and regulations.

39.1.5.5.5.3. The Commission may disqualify any person who fails to satisfy these criteria from holding or continuing to hold the relevant position.

39.1.5.5.6. Prior Approval of Key Appointments

39.1.5.5.6.1. A CRA and its Rating Holding Company must obtain the prior approval of the Commission before appointing any person to the following positions:

i. Member of the Board of Directors;

ii. Chief Executive Officer;

iii. Members of the Rating Committee; and

iv. Compliance Officer.

39.1.5.5.6.2. Applications for prior approval must be submitted at least thirty (30) calendar days before the intended appointment date, together with all documents required by the Commission to assess whether the candidate is Fit and Proper.

39.1.5.5.6.3. In the event of a vacancy in the position of Chief Executive Officer or Compliance Officer, the CRA must take all necessary steps to fill the vacancy within three (3) months from the date the vacancy arises, and must immediately notify the Commission of the vacancy.

39.1.5.6. Rating Methodologies and the Rating Process

39.1.5.6.1. Rating Definitions and Recognition of Default

39.1.5.6.1.1. A CRA must develop, maintain, and consistently apply rating methodologies and criteria that are rigorous, systematic, and subject to regular review across all relevant sectors and instruments for which it has required accreditation. Rating methodologies must be grounded in historical data, stress testing, and qualitative analysis appropriately tailored to the type of instrument or issuer being rated—including financial institutions, non-financial corporates, structured finance, covered bonds, project finance, or any other debt instrument—and, where relevant, incorporate supplementary criteria such as counterparty credit risk, guaranteed issues, or rating support (e.g., government related entities, linkages between parent and subsidiaries). Credit rating methodologies and criteria shall be publicly disclosed and, in the event there is a new asset class or structure, such methodologies and criteria must be released before the new assigned rating(s).

39.1.5.6.1.2. A CRA must clearly disclose its definition of 'default' in its website. It must be made clear whether a particular rating only measures timely payment of debt obligations or includes recovery values expected after a default.

39.1.5.6.2. Policies and Processes for Ratings

39.1.5.6.2.1. A CRA must have robust policies and processes in place to ensure that methodologies are consistently applied across ratings. The credit rating process must detail the various steps and activities involved in assigning a credit rating, starting from the signing of the rating agreement, to the assignment of the rating, and subsequent actions such as rating dissemination and surveillance. Every CRA must have an operations manual that provides step-by-step guidance for Rating Analysts to conduct rating assignments and that formalizes the rating process.

39.1.5.6.2.2. A CRA must have policies and procedures in place to ensure that ratings are timely issued and must establish clear timelines not only for new ratings, but also for subsequent rating actions. A CRA must publicize the approximate timeline of the rating process to set market expectations.

39.1.5.6.2.3. A CRA must have policies and procedures in place to ensure that the information it uses in assigning ratings is of sufficient quality and from reliable sources. These must include a policy on the use of third-party information and certification.

39.1.5.6.3. Separation of Rating Activities

39.1.5.6.3.1. A CRA must have separate functional groups, each having specific responsibilities in the rating process. The following groups must be established:

i. ***Business Development Group.*** Responsible for obtaining mandates from prospective entities, this group must handle all business communication and finalize the commercial terms of the rating assignment.

A CRA's business development group must be separated from its analytical group.

ii. ***Analytical Group.*** This group handles all analytical responsibilities for a rating assignment and for assessing credit risk for the relevant entity. It shall not be involved in any commercial discussions with the entity. This group must be responsible for the rating process from receipt of written consent for a rating until the time the rating is made public. It shall also be responsible for surveillance and review of ratings.

iii. ***Criteria Group.*** This group must be responsible for formulating, maintaining, and refining the criteria framework under which the various types of instruments and issuers will be rated. This group will ensure, before implementation, that any new criteria proposed are thoroughly discussed from both an analytical and market impact perspective.

iv. ***Rating Administration***. This group ensures that the rating process is followed, and that timelines are strictly respected. It must look after the progress of a rating assignment from the initiation stage until the dissemination of the final rating to the public. This group must also maintain a list of all outstanding ratings and proper documentation to support credit opinions, and shall handle external dissemination of ratings and rating reports.

39.1.5.6.3.2. The separation between the business group and the analytical group must be maintained at all times, irrespective of the size or structure of the CRA. Where the size and structure of the CRA makes the establishment of all other functional groups—including the rating administration and criteria groups—or the complete segregation of responsibilities between them, impracticable, the CRA must nonetheless ensure that the independence and integrity of the ratings process is preserved at all times. In such cases a CRA must:

i. Document in its operation manual the specific segregation requirements it is unable to fully implement together with the rationale for each along with the alternative arrangements it has adopted, and;

ii. Demonstrate that the alternative arrangements provide safeguards equivalent in effect to functional separation, with particular regard to the separation of business development and analytical responsibilities.

39.1.5.6.4. Competence and Independence of Rating Analysts

39.1.5.6.4.1. A CRA must establish, maintain, and enforce written standards of competence for Rating Analysts. The standards must be reasonably designed to ensure that Rating Analysts assigned to rate a particular type of issuer, industry sector, or asset class possess the knowledge, skills, and experience necessary to produce accurate and reliable credit ratings in that category. The competence standards must be differentiated by rating category and must specify, at minimum: (a) the minimum relevant professional experience required before an analyst may independently lead a rating in that category; (b) any formal qualifications, certifications, or examinations relevant to the category; (c) any mandatory training or continuing education requirements; and (d) the criteria for evaluating whether an analyst has met the standards.

39.1.5.6.4.2. The CRA must maintain records of each Rating Analyst's qualifications, training history, and the rating categories for which the analyst has been assessed as meeting the competence standards. These records must be updated at least annually.

39.1.5.6.4.3. The Rating Analyst must be independent of the issuer they rate as required in SRC Rule 39.1.5.8.1.5. In order to prevent familiarity threats and preserve analytical independence, a CRA must implement a policy on the rotation of Lead Rating Analysts. The Lead Rating Analyst for any rated entity must not serve continuously in that capacity for a period exceeding four (4) years, after which period a different analyst shall be assigned as lead. The outgoing Lead Rating Analyst must not assume the Lead Rating Analyst role for the same rated entity for a period of at least two (2) years following rotation.

39.1.5.6.4.4. When a Rating Analyst or other person who participated in determining a credit rating is subsequently employed by a rated entity or issuer that was rated by the CRA within the preceding twelve (12) months, the CRA must conduct a look-back review to determine whether that person's prospects of future employment influenced any rating. The CRA must report the findings of such review to the Commission within thirty (30) days of becoming aware of the transition.

39.1.5.6.5. Rating Committee

39.1.5.6.5.1. A CRA must establish a Rating Committee to assign and decide on credit ratings. All rating decisions, including decisions regarding changes in rating, must be made by the Rating Committee. A CRA must not establish any other committee that would or could potentially affect the finality of decision of the Rating Committee.

39.1.5.6.5.2. All members of the Rating Committee must be experts with adequate qualifications, knowledge and experience in relevant industry sectors and financial markets. No individual who has, or is perceived to have, a business development function within the CRA, or who initiates or participates in fee discussions with any rated entity, may be appointed to the Rating Committee, nor a controller or director. In addition, all members must be independent with respect to the rated entity as defined in SRC Rule 39.1.5.8.1.5. and at least one member must be from outside the immediate asset class, sub-sector, or geographic area of the entity under review.

39.1.5.6.5.3. The name and personal credentials of the permanent Rating Committee members must be published on the CRA's website.

39.1.5.6.5.4. The Rating Committee must keep records of its proceedings and decisions, with sufficient detail on the reasons for the ratings assigned.

39.1.5.6.6. Pre-Rating Requirements

39.1.5.6.6.1. Neither a CRA nor any employee or representative must promise, assure, or guarantee a particular rating outcome—either implicitly or explicitly—while soliciting business.

39.1.5.6.6.2. A CRA must clearly communicate the broad credit assessment framework, the rating definition, rating criteria, and the rating scale to the rated entity before rating services are engaged to enable the entity to make an informed decision about the engagement. It must communicate policies related to rating actions, and for conditions for suspension or withdrawal of ratings.

39.1.5.6.6.3. A CRA and the entity it proposes to rate must sign a written contract, covering the CRA's obligations in providing its rating services and the rights of the rated entity over the use of the rating. In particular, the contract must clearly stipulate the obligations of the rated entity for cooperation and provision of updated information to conduct periodic surveillance as well as conditions for contract termination, including withdrawal of assigned ratings. The contract must also stipulate the conditions for appeal of ratings. This contract must conform with the model submitted by the CRA as part of the accreditation process.

39.1.5.6.7. Ratings and the Rating Report

39.1.5.6.7.1. A credit rating must be an informed opinion resulting from a systematic assessment of qualitative and quantitative factors, supported by appropriate benchmarking against comparable entities, instruments, and market peers to ensure consistency, accuracy, and relative positioning of credit risk.

39.1.5.6.7.2. Each credit rating must be accompanied by a rating report which shall highlight the key factors affecting the rating, provide forward-looking opinions on these factors, and, where applicable, explain the rating outlook (as described in SRC Rule 39.1.5.6.10). The reports must have sufficient description of the meaning and limitations of ratings. The report must also include the name of the analyst that participated in the rating process.

39.1.5.6.7.3. Each CRA must make its credit rating reports available on its website, either free of charge or at a nominal fee.

39.1.5.6.8. Appeal Process

39.1.5.6.8.1. The Rating Committee's decisions must be subject to a review or appeal process by the issuer. A CRA must articulate this process in its website and include it in the written rating agreement between the rated entity and the CRA.

39.1.5.6.8.2. While an appeal process is critical for the initial rating, a CRA shall ensure that such an appeal process is not misused by the issuer to delay a rating action in the case of rating reviews, especially rating downgrades. The committee that decides the appeal shall have at least one member who did not participate in the original rating to bring in a fresh perspective.

39.1.5.6.9. Dissemination of Ratings

39.1.5.6.9.1. A CRA must have a well-defined policy for public dissemination of rating information. To this end, it must adopt strict timelines for communicating the rating to the issuer, receiving acceptance, and issuing a public announcement of the rating.

39.1.5.6.9.2. Acceptance from the issuer may be required for public dissemination of the initial rating but no further acceptance must be required for subsequent rating actions. When ratings are changed, delay by the issuer in responding must not hinder a CRA from publicizing the revised rating.

39.1.5.6.9.3. If a rating is assigned to a related entity, the CRA must adequately disclose it in all ratings communications.

39.1.5.6.10. Surveillance

39.1.5.6.10.1. A CRA must adopt a formal policy of conducting continuous and periodic reviews of ratings to ensure that a credit rating on an instrument reflects credit quality throughout the life of an instrument.

39.1.5.6.10.2. In addition to continuous monitoring, a CRA must conduct periodic surveillance, ensuring that every rated credit is tracked at least annually. In this regard, the CRA must ensure that its annual rating review of an issuer or debt security issue is conducted and that a rating report is published within five (5) days twelve (12) months after the last annual rating review.

39.1.5.6.10.3. A CRA must implement Rating Outlooks and Rating Watches into their ratings monitoring framework with the necessary parameters. The CRA must also distinguish the timeline of the rating movement probability, between a Rating Outlook and Rating Watch. An indicative timeframe must be set out by the CRA in finalizing a rating action and the relevant rating reports after a debt issue is put on rating watch.

39.1.5.6.10.4. In addition, immediate rating updates or reviews must be undertaken whenever any event or development takes place that may affect the credit quality of the rated entity or instrument. Such immediate updates or reviews may be mostly event-driven and may be performed as the need arises.

39.1.5.6.10.5. If an issuer does not provide sufficient information for surveillance, the CRA, wherever possible, must conduct surveillance on a best-effort basis and all rating communications must prominently disclose this fact. If a CRA feels constrained in its rating view, even on a best-effort basis, it may withdraw the rating as further detailed in SRC Rule 39.1.5.6.11.

39.1.5.6.11. Withdrawal of Ratings

39.1.5.6.11.1. A CRA may withdraw ratings without prior approval of the Commission in the following circumstances:

i. The rated instrument has been redeemed or otherwise extinguished prior to its schedule maturity;

ii. The issuer has persistently failed to provide the necessary information for surveillance and the CRA has exhausted its best efforts surveillance obligations;

iii. The issuer has formally requested withdrawal following termination of the rating agreement;

iv. Or in some cases, after a pre-defined period after a default has occurred (the CRA may have to determine if maintaining the rating is not feasible after a default, or if it will maintain this default rating for a period to assess restructuring plans, recovery prospects, or potential debt exchanges).

39.1.5.6.11.2. In all such cases, the CRA must publish a withdrawal notice with the reasons and the last rating assigned. The withdrawal rating must remain visible in the CRA website with a withdrawal notation for twelve (12) months following withdrawal. The CRA must notify the Commission of the withdrawal within five (5) days.

39.1.5.6.11.3. Exceptionally, a CRA may request the Commission to withdraw ratings due to local market conditions or systemic issues. The request must set out the reasons for withdrawal and the CRA's proposed withdrawal notice. The Commission may require the CRA to keep its rating on "notice of withdrawal" for a specified period before the withdrawal takes effect.

39.1.5.6.11.4. A CRA must develop and publicly disclose clear policies governing conditions that trigger withdrawal under each of the circumstances above, including the processes and timelines it will follow.

39.1.5.6.12. Confidentiality Requirements

39.1.5.6.12.1. A CRA must keep confidential all information submitted by an issuer or related entity in connection with a credit rating assignment and is prohibited from using it for any purpose other than rating. When the assigned rating is made public, the CRA must ensure that the rating report accompanying the rating does not include information in breach of this confidentiality obligation.

39.1.5.6.12.2. A CRA must also keep confidential a request by an issuer to be rated, until the rating is accepted and the accepted initial rating is released. In case that the initial rating is not accepted, the assignment must remain confidential. However, unaccepted ratings must be reported to the Commission.

39.1.5.6.12.3. A CRA must have a clear confidentiality policy and have processes and measures in place to maintain confidentiality of issuers' information. All members of the analytical team and rating committees who may have access to such confidential information must acknowledge compliance with confidentiality obligations through self-certification. Board members who may have access to confidential information in the exercise of their oversight function must also abide by these confidentiality obligations. The obligations of confidentiality must remain even after termination of employment or association with the CRA.

39.1.5.6.12.4. Confidentiality of information is a contractual obligation and must be formally documented in the agreement to perform credit rating services.

39.1.5.7. Private, Unsolicited, and Unaccepted Ratings

39.1.5.7.1. Private Ratings

A CRA may be requested, either by issuers or by third parties, to assign private ratings. In such cases, the CRA must not publicly disclose the ratings and the CRA must adopt relevant policies that articulate the non-publication and non-dissemination of the private rating. However, such ratings must be reported to the Commission by the CRA on an annual basis.

39.1.5.7.2. Unsolicited ratings

39.1.5.7.2.1. Unsolicited ratings are those that the rated entity does not consent to or participate in. Wherever a CRA assigns unsolicited ratings, it must distinguish them—using a notation—from interactive ratings. A clear distinguishing prefix or suffix (such as "pi" to denote public information rating) will help the user make an informed judgment about using the rating.

39.1.5.7.2.2. A CRA that assigns unsolicited ratings that are not directly revenue generating must have adequate justification for doing so. More specifically, a CRA must not resort to conservative unsolicited ratings as a way of coercing issuers to obtain higher interactive ratings for which they will need to pay. A minimum of two (2) years between initiating coverage through an unsolicited rating and the first interactive rating of the same issuer must be observed.

39.1.5.7.3. Unaccepted Ratings

A CRA policy for interactive ratings may require that issuers be given the choice of accepting the rating or not. In such cases, the CRA is prohibited from disclosing the rating without obtaining written consent. However, once the rating is accepted for the first time, a CRA must not seek acceptance before publicizing changes in the rating. Unaccepted ratings must be reported to the Commission by the CRA on an annual basis.

39.1.5.8. Independence and Management of Conflict of Interest

39.1.5.8.1. Conflicts of Interest

39.1.5.8.1.1. A CRA must have a clearly articulated policy on the conflicts of interest that it may face and the measures to manage them to ensure the independence and objectivity of ratings. This policy and the corresponding rules for avoiding conflicts of interest apply to all employees and persons who participate directly or indirectly in the credit rating process, particularly to Rating Analysts, Rating Committee members, and to the Board of Directors.

39.1.5.8.1.2. The determination of a credit rating must be influenced only by factors relevant to the credit assessment. A CRA must not refrain from taking a rating action because of the potential effect of the action on the CRA, an issuer, an investor, or other market participant. Ratings assigned by a CRA to an issuer or issue must not be affected either by the existence of, or potential for, a business relationship between the CRA and the issuer (or its affiliates) or any other party, or the absence of such a relationship. In instances where rated entities (for example, governments) have, or are simultaneously pursuing oversight functions related to a CRA, the CRA must deploy different employees (than those involved in oversight issues) to conduct its rating exercise.

39.1.5.8.1.3. Any potential conflicts of interest from any member of the rating team must be declared before participating in a credit rating engagement. Where a conflict of interest exists as defined by company policy and rules, the employee concerned must refrain from participating in the rating assignment and Rating Committee proceedings. A Rating Analyst, who becomes involved in a personal relationship that creates the potential for real or apparent conflict of interest, must be required to disclose that relationship to the appropriate manager or officer of the CRA as determined by CRA policies.

39.1.5.8.1.4. In order to maintain Rating Analysts' neutrality and to prevent employees from making gain through misuse of confidential information, a CRA must adopt a trading and investment declaration policy. This could categorize possible investment avenues into classes: Acceptable, Acceptable with Prior Permission, and Unacceptable. In any event analysts must not hold any investment positions, in entities or debt instruments they rate, except where such exposure arises indirectly through diversified investment vehicles such as mutual funds, and shall disclose their investment positions on an annual basis.

39.1.5.8.1.5. CRA employees and persons that participate in or otherwise influence the determination of a rating of any particular entity or obligation must comply with the following independence criteria:

i. Must not have any direct or indirect financial interest in the rated entity or its related parties;

ii. Must not have current or recent employment, advisory or business relationship with the rated entity or its related parties in the past three (3) years;

iii. Must not have an immediate family relationship with any director, officer or major shareholder of the rated entity; and

iv. Must not have any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.

39.1.5.8.1.6. All CRAs are prohibited from soliciting money, gifts, or favors from anyone with whom the CRA does business and shall be prohibited from accepting gifts in cash or gifts exceeding minimal monetary value as specified by the CRA.

39.1.5.8.1.7. A CRA must not issue credit ratings on an entity in which any of its shareholders with a five percent (5%) or greater stake also holds a significant interest.

39.1.5.8.1.8. A CRA must ensure that compensation for analytical personnel is not linked to revenues earned from the ratings that are executed by the Rating Analysts concerned. A CRA must periodically review analyst remuneration policies to ensure they do not compromise the objectivity of the rating process. A CRA must publicly disclose its broad fee structure, including the minimum and maximum rating fees charged for any issue or issuer.

39.1.5.8.1.9. A CRA must disclose whether any issuer, originator, arranger, subscriber, or other client and its affiliates make up more than ten percent (10%) of total CRA revenue.

39.1.5.8.1.10. Each CRA must adopt a formal policy of disclosure when it rates securities issued by its promoter. The policy in such cases must ensure that adequate disclosure of the shareholding is made in all rating communications so that the market is aware of the potential conflict of interest.

39.1.5.8.2. Permitted Ancillary Services and Exclusions

39.1.5.8.2.1. A CRA may provide services other than the issuance of credit ratings, and related rating activities, which are termed "ancillary services." However, ancillary services must not become the major source of revenue for a CRA.

39.1.5.8.2.2. Permitted ancillary services include, but are not limited to:

i. Market forecasts and estimates of economic trends;

ii. Pricing analysis and valuation services not used in connection with a rated entity's own instruments;

iii. General data analysis and related distribution services; and

iv. Financial research of a general nature that does not relate to a specific rated entity.

39.1.5.8.2.3. Neither a CRA, nor any major shareholder or controller, may provide the following services to a rated entity, any related third party, or any affiliate thereof:

i. Consultancy or advisory services on corporate strategy, governance, or legal structure;

ii. Consultancy or advisory services on financial structure, capital structure, or liability management;

iii. Advice on the structuring of debt instruments or financial products that are, or are intended to be, submitted to the CRA for rating; or

iv. Any other service that creates a direct incentive for the CRA to assign or maintain a particular rating outcome.

39.1.5.8.2.4. A CRA must ensure that the provision of any permitted ancillary service does not give rise to a conflict of interest with its credit rating activities. Where a potential conflict of interest is identified, the CRA must either discontinue the ancillary service or put in place documented safeguards sufficient to ensure the independence and objectivity of the rating process.

If the conflict cannot be adequately mitigated, the CRA must discontinue the ancillary service.

39.1.5.8.2.5. Where a CRA provides permitted ancillary services, it must maintain effective organizational and operational separation between those activities and its rating activities. Specifically:

i. Persons engaged in ancillary services may not participate in, or exercise any influence over, any rating decision or rating review;

ii. Information obtained in the course of ancillary services may not be used in the rating process unless it is equally available to the rated entity and is documented as such in the rating file; and

iii. The CRA's internal control function must monitor compliance with this separation requirement and report any breach to the Board.

39.1.5.8.2.6. When a CRA provides ancillary services to a rated entity or any related third party, it must disclose this fact in the final rating report for that entity, specifying the nature of the service provided.

39.1.5.8.2.7. The CRA must also submit to the Commission, as part of its annual reporting obligations, a complete list of all ancillary services provided during the preceding year, identifying for each service the nature of the service, the client, and a statement confirming the absence of a conflict of interest with the relevant rating activities.

39.1.5.8.2.8. Where the Commission determines that a particular ancillary service—whether or not prohibited under this Rule—gives rise to a conflict of interest that is not adequately managed, it may direct the CRA to discontinue that service.

39.1.5.8.3. General Code of Conduct

39.1.5.8.3.1. A CRA must adopt a Code of Conduct that complies with all the requirements in the International Organization of Securities Commissions' Code of Conduct Fundamentals for Credit Rating Agencies (IOSCO CRA Code).

39.1.5.8.3.2. Where the CRA's Code of Conduct differs in substance from the provisions of the IOSCO CRA Code (other than those provisions required in these Guidelines), the CRA must explain where and why these differences exist, and fully disclose them on its website.

39.1.5.8.3.3. The Chief Executive Officer or President, the Board of Directors and all employees of the company must affirm in writing their compliance with the company's Code of Conduct.

39.1.5.9. Compliance, Internal Controls, Audit and Review Functions

39.1.5.9.1. Internal Controls and Audit Function.

39.1.5.9.1.1. A CRA must maintain effective internal controls to ensure its rating policies, procedures, and best practices are consistently implemented across all rating activities. The design and operation of the internal control function is the responsibility of senior management and must be commensurate with the nature, scale, and complexity of the CRA's operation.

39.1.5.9.1.2. A CRA of sufficient size and complexity must establish a dedicated internal audit unit function, independent of management to periodically review the effectiveness of internal controls and compliance arrangement. The internal audit function must report directly to the Audit Committee of the Board established under SRC Rule 39.1.5.5.4, and not to an executive officer of the CRA. Where the establishment of a dedicated internal audit function is not practicable due to the size and structure of the CRA, the Board Audit Committee must satisfy itself at least annually that adequate alternative arrangements are in place. These alternative arrangements must be documented in the operation manual.

39.1.5.9.2. Methodology Review Function

39.1.5.9.2.1. A CRA must ensure that its rating methodologies, models, key rating assumptions (including mathematical and correlation assumptions), benchmarking, and any significant changes or modifications thereto, are periodically reviewed by persons who (a) did not participate in producing the ratings that applied the methodology under review during the period being reviewed; and (b) report directly to the Independent Directors of the Board (or to a board committee composed exclusively of Independent Directors) in respect of their findings. The CRA must designate in writing the person or persons responsible for discharging the methodology review function and must notify the Commission of any change in that designation.

39.1.5.9.2.2. The methodology review function must not be subordinated to, or directed by, any revenue-generating function of the CRA. Where the CRA's size makes a permanently ring-fenced organizational unit impracticable, the requirement may be satisfied by designating one or more qualified persons to discharge the review function on a periodic basis, provided that:

i. The designated persons did not lead or approve the ratings under review;

ii. Findings are documented and reported directly to the Independent Directors without prior review by the Chief Executive Officer or any commercial function; and

iii. The designation and reporting arrangements are disclosed to the Commission.

39.1.5.9.2.3. The findings and recommendations of the methodology review function must be documented and submitted to the Commission.

39.1.5.9.2.4. At the minimum, the methodology review function must:

i. Conduct a full review of all rating methodologies at least once every two (2) years;

ii. Conduct an expedited review whenever a material change to a methodology is proposed; and

iii. Assess whether existing methodologies remain appropriate or are applied consistently across similar profiles (e.g., financial institutions methodology would apply to all banks) as well as asset classes or instrument types.

39.1.5.9.3. Compliance Function

To ensure compliance with all of its obligations, a CRA must have a Compliance Officer who shall report directly to the Board of Directors. This officer must prepare and submit regular status reports on compliance by the CRA and its employees with CRA regulations and the Code of Conduct, and at a minimum submit an annual report. The remuneration of the Compliance Officer must not be linked to the business performance of the CRA, and must be structured so as to ensure the independence of the Compliance Officer's judgment. The Compliance Officer must not be involved in the performance of credit rating activities.

39.1.5.9.4. Anti-Corruption and Whistleblower Policy.

A CRA must have detailed policies and procedures on anti-corruption and whistleblowing that are appropriate to the nature, scale and complexity of its business. These policies and procedures must include provisions encouraging all employees to report (with complete confidentiality) any unethical practice or grave misconduct to a designated authority within the CRA and provisions to prevent discrimination, retaliation, or harassment against any whistle-blower or participant in the investigation process. All reported events must be taken seriously and investigated promptly in accordance with its policies and procedures. The investigation report must be prepared within a stipulated time frame (as specified by the CRA) from the receipt of the complaint.

39.1.5.10. Reporting and Transparency Requirements

39.1.5.10.1. Reporting to the Commission

39.1.5.10.1.1. A CRA must report the following information to the Commission on an annual basis:

i. Audited financial statements — within six (6) months after the close of each financial year;

ii. Full list of ancillary services provided during the year — within one (1) month after the close of each calendar year;

iii. Proposed credit review timetable for the next calendar year — no later than ten (10) business days before the end of each calendar year;

iv. Annual report of changes to information provided in the accreditation application, including changes to ownership, key personnel, methodologies or material policies;

v. Annual Transparency Report — within four (4) months after the close of each financial year. The report must include, at minimum:

a. A description of the CRA's legal structure and ownership, including all Significant Shareholders;

b. A description of the CRA's internal quality control system for rating activities;

c. Statistics on the allocation of CRA staff to new ratings, surveillance of existing ratings, and methodology development, disaggregated by asset class (e.g., corporate bonds, government-linked, infrastructure, financial institutions);

d. Revenue data, including a breakdown between rating fees and ancillary services revenue, and by asset class where the CRA has sufficient volume;

e. A list of the CRA's ten (10) largest clients by gross revenue received during the year — this information shall be treated as confidential regulatory information submitted to the Commission and shall not be publicly disclosed by the Commission except where required by law; and

f. A description of the CRA's remuneration policies for Rating Analysts and Senior Management, including confirmation that compensation is not linked to rated entity revenue.

vi. Annual rating transition data —submitted together with the Annual Transparency Report within four (4) months after the close of each financial year. The annual rating transition data must show the movement of rated entities between rating categories over the preceding twelve-month period, disaggregated by rating category and asset class, covering all periods for which data are available since the CRA commenced rating operations. The transition data must be presented in matrix form, showing for each starting rating category the percentage of rated entities that were, at the end of the twelve-month period:

a. Affirmed in the same rating category;

b. Upgraded to each higher rating category;

c. Downgraded to each lower rating category;

d. In default; or

e. Subject to rating withdrawal, with withdrawn ratings presented as a separate column.

Where the number of rated entities in a given rating category and asset class combination is fewer than five (5) during a period, the CRA must note this limitation in its submission and may present the data on an aggregated basis across adjacent rating categories, provided that:

a. The aggregation is clearly disclosed;

b. The basis for aggregation is applied consistently across periods; and

c. The underlying observation counts are disclosed alongside the aggregated data. This data must also be published on the CRA's public website within five (5) business days of submission to the Commission.

vii. Historical default rate data — submitted together with the Annual Transparency Report and the transition data within four (4) months after the close of each financial year. Data on the historical default rates of the CRA's rating categories, disaggregated by rating category and asset class, covering all periods for which data are available. This data must also be published on the CRA's public website within five (5) business days of submission to the Commission;

viii. A staff training schedule, listing all training programs attended or planned for Rating Analysts and key staff;

ix. The annual compliance report from the Compliance Officer.

39.1.5.10.1.2. A CRA must report the following information on a quarterly basis — due within fourteen (14) business days after the end of each quarter:

i. A report on all credit rating reviews and rating outlook changes published during the quarter, including initial ratings, upgrades, downgrades, affirmations, placements on rating watch, and withdrawals;

ii. A report on all entities or instruments on rating watch and all subsequent rating actions during the quarter; and

iii. A report on the movement of Senior Management and Rating Analysts.

39.1.5.10.1.3. A CRA must report the following information on an event-driven basis — due within the period specified after the event:

i. A report on any vacancy in the position of Chief Executive Officer or Compliance Officer immediately;

ii. A report on any proposed or completed change in direct or indirect shareholding, within fourteen (14) calendar days;

iii. A report on the appointment or cessation of any person in a position requiring Commission approval under SRC Rule 39.1.5.5.6, within fourteen (14) calendar days;

iv. A written explanation, including remedial actions, where:

a. A credit rating is lowered by three (3) or more rating notches in a single rating action (sharp downgrade);

b. Any rating action is taken within six (6) months of the assignment of an initial rating; or

c. A credit rating for a particular issuer or issue is changed more than once within six (6) months (frequent rating actions), within fourteen (14) business days;

v. A report on any occurrence of an event triggering the CRA's Business Continuity Plan, promptly.

vi. A copy of the Credit Rating Report (CRR) shall be furnished to the Commission through the Office of the General Accountant, simultaneous to its submission to the issuer-ratee. A CRR shall be in two (2) formats, notice form and long-form report. The notice form of CRR shall be used for public announcement of the rating and it shall indicate the highlight of the factors considered for the rating. The long-form CRR shall provide a discussion of all the basis underlying the factors considered including the source documents relied upon.

vii. A change in credit rating as a result of a review by the CRA or a failure to access information from the issuer shall trigger the mandatory submission to the Commission by the CRA of a report disclosing the matter within five (5) business days from the date of change or from the date of denial by the issuer to provide sufficient information.

39.1.5.10.2. Transparency Obligations

A CRA must maintain a public website through which it makes freely available, without charge, all information required to be publicly disclosed under these Guidelines:

i. Methodology frameworks, key criteria and assumptions for each sector and/or debt instrument;

ii. Full rating policies, including unsolicited rating policy and rating review procedures;

iii. The CRA's Code of Conduct, including adopted IOSCO CRA Code provisions and any stated departures;

iv. Disclosure of any major shareholder conflicts;

v. Quarterly credit rating review reports and Rating Watch reports, within five (5) business days of submission to the Commission;

vi. The proposed annual credit review timetable, within five (5) business days of submission to the Commission;

vii. Annual historical default rate data, within five (5) business days of submission to the Commission;

viii. Annual rating transition data, within five (5) business days of submission to the Commission;

ix. The Annual Transparency Report (except for the information on largest clients);

x. All rating reports and rating outlooks, including rationale, key assumptions, sensitivity analyses, and critical rating factors. Rating reports for initial ratings must be published as soon as ratings have been finalized, and in any event prior to the issuance of the rated instrument; and

xi. A list of corporate bonds and sukuk downgraded to default should be disclosed and published by the CRA on its website on an annual basis. A historical record of the default list (at least for the past five (5) years) must also be made available on the website.

39.1.5.11. Maintenance of Records.

A CRA must maintain all records pertaining to a rating exercise until the maturity of the issue and at least for a minimum of five (5) years more. Such records have to be maintained for all ratings, including unaccepted ones.

39.1.5.12. Protection of Property

CRA employees must take all reasonable measures to protect all property and records belonging to or in possession of the CRA from fraud, theft, or misuse.

39.1.5.13. Penalties

Failure to comply with any of the foregoing requirements must be a sufficient ground, after due notice and hearing, for the suspension or revocation of the accreditation of the CRA and/or for the imposition of a monetary fine under the Consolidated Scale of Fines and Penalties of the Commission.

Section 2. Transitory Clause

All CRAs accredited as of the effectivity of this Circular must comply with all applicable requirements under this Circular within twelve (12) months from its effectivity. Such CRAs must submit, within three (3) months from its effectivity, a plan detailing the actions to be undertaken and the timeline for implementation.

Section 3. Effectivity Clause

This Circular shall be effective fifteen (15) days after the date of its last publication in two (2) newspapers of general circulation in the Philippines.