
**Rating services — Assessment of
creditworthiness of non-listed entities**

*Services d'estimation — Évaluation de la solvabilité des entités non
listées*

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Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

International Standards are drafted in accordance with the rules given in the ISO/IEC Directives, Part 2.

The main task of technical committees is to prepare International Standards. Draft International Standards adopted by the technical committees are circulated to the member bodies for voting. Publication as an International Standard requires approval by at least 75 % of the member bodies casting a vote.

In other circumstances, particularly when there is an urgent market requirement for such documents, a technical committee may decide to publish other types of normative document:

- an ISO Publicly Available Specification (ISO/PAS) represents an agreement between technical experts in an ISO working group and is accepted for publication if it is approved by more than 50 % of the members of the parent committee casting a vote;
- an ISO Technical Specification (ISO/TS) represents an agreement between the members of a technical committee and is accepted for publication if it is approved by 2/3 of the members of the committee casting a vote.

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An ISO/PAS or ISO/TS is reviewed after three years in order to decide whether it will be confirmed for a further three years, revised to become an International Standard, or withdrawn. If the ISO/PAS or ISO/TS is confirmed, it is reviewed again after a further three years, at which time it must either be transformed into an International Standard or be withdrawn.

Attention is drawn to the possibility that some of the elements of this document may be the subject of patent rights. ISO shall not be held responsible for identifying any or all such patent rights.

ISO/TS 10674 was prepared by Project Committee ISO/PC 235, *Rating services*.

Introduction

This Technical Specification is intended to help ensure process transparency and reliability of credit assessment ratings in the acquisition of trade information.

In view of the increasing number of credit assessment service organizations, each with its individual assessment system, there is now a clear need for a common evaluation and communication tool in the form of an international standard.

This Technical Specification is intended to be of particular use to serious credit bureaus and their customers (often small and medium-size businesses) who seek to operate in an international market. This Technical Specification is intended to help increase global trade by making it possible to obtain more reliable credit assessments of even the smaller partners in new markets.

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Rating services — Assessment of creditworthiness of non-listed entities

1 Scope

This Technical Specification specifies terms, definitions and basic process requirements for the assessment of creditworthiness of non-listed companies, using model-based approaches, or committee-based approaches, or both.

This Technical Specification does not apply to the assessment of the creditworthiness of classes of, or individual obligations of, such companies or securities traded in the financial markets, nor does it relate to the provision of services assessing the creditworthiness of individuals (consumer scoring).

2 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

2.1

assessment report

document containing all essential information and incorporated factors that have been relevant, combined with their weighting

2.2

credit assessment institution

CAI

organization that uses either a committee-based or a model-based approach to reach a credit assessment of an entity

EXAMPLE Credit insurance company; commercial information company.

2.3

output

assessment result reached by the CAI

3 Quality and integrity of the assessment process

3.1 Quality of the assessment process

The credit assessment institution (CAI) shall adopt, implement and enforce written procedures to ensure that the assessments it disseminates are based on a thorough analysis of all information known to the CAI that is relevant to its analysis in accordance with the CAI's published assessment methodology.

The CAI shall use assessment methodologies that are rigorous and systematic and, where possible, result in assessments that can be subjected to some form of objective validation based on historical experience.

In assessing an entity's creditworthiness, analysts involved in the preparation or review of any assessment shall use methodologies established by the CAI. Analysts shall apply a given methodology in a consistent manner, as determined by the CAI.

Credit assessment shall be assigned by the CAI and not by any individual analyst employed by the CAI; assessments shall reflect all information known, and believed to be relevant, to the CAI, consistent with its published methodology; and the CAI shall use people who, individually or collectively, have appropriate knowledge and experience in developing an assessment for the type of entity.

The CAI shall maintain internal records to support its credit assessments for a specified period of time or in accordance with applicable law.

The CAI and its analysts shall take steps to avoid issuing any credit analyses or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of an entity.

The CAI shall ensure that it has and devotes sufficient resources to carry out high-quality credit assessments of all entities it rates. When deciding whether to assess or continue assessing an entity, it shall assess whether it is able to devote sufficient personnel with sufficient skill sets to make a proper credit assessment, and whether its personnel are likely to have access to sufficient information in order to make such an assessment.

The CAI shall structure its analytical team to promote continuity and avoid bias in the assessment process.

3.2 Monitoring and updating

Except for assessments that clearly indicate they do not entail ongoing surveillance, once an assessment is published, the CAI shall monitor on an ongoing basis and update the assessment by:

- regularly reviewing the entity's creditworthiness;
- initiating a review of the status of the assessment upon becoming aware of any information that might reasonably be expected to result in a change of assessment (including termination of an assessment), consistent with the applicable methodology; and,
- updating the assessment on a timely basis, as appropriate, based on the results of such review.

Where a CAI makes its assessments available to the public, the CAI shall publicly announce if it discontinues its assessments. Where a CAI's assessments are provided with monitoring service only to its subscribers, the CAI shall announce to its subscribers if it discontinues assessments. In both cases, continuing publications by the CAI of the discontinued assessment shall indicate the date the assessment was last updated and the fact that the assessment is no longer being updated.

3.3 Integrity of the assessment process

The CAI and its employees shall comply with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.

The CAI and its employees shall deal fairly and honestly with the entities for which it provides credit assessments.

The CAI's analysts shall have high integrity and the CAI shall not employ individuals with demonstrably compromised integrity.

The CAI and its employees shall not, either implicitly or explicitly, give any assurance or guarantee of a particular assessment prior to an assessment process.

The CAI shall institute policies and procedures that clearly specify a person responsible for the compliance of the CAI and its employees with the provisions of the CAI's code of conduct and with applicable laws and regulations.

Upon becoming aware that another employee or entity under common control with the CAI is or has engaged in conduct that is illegal, unethical or contrary to the CAI's code of conduct, a CAI employee shall report such information immediately to the individual in charge of compliance or an officer of the CAI, as appropriate, so that proper action may be taken.

A CAI's employees are not necessarily expected to be experts in the law. Nonetheless, its employees are expected to report the activities that a reasonable person would question. Any CAI officer who receives such a report from a CAI employee is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the rules and guidelines set forth by the CAI. CAI management shall prohibit retaliation by other CAI staff or by the CAI itself against any employees who, in good faith, make such reports.

4 CAI independence and avoidance of conflicts of interest

4.1 General

The CAI shall not forbear or refrain from an assessment based on the potential effect (economic, political or otherwise) of the action on the CAI, an entity, an investor or other market participant.

The CAI and its analysts shall use care and professional judgment to maintain both the substance and appearance of independence and objectivity.

The determination of a credit assessment shall be influenced only by factors relevant to the assessment.

The credit assessment a CAI assigns to an entity shall not be affected by the existence of, or potential for a business relationship between, the CAI (or its affiliates) and the entity (or its affiliates) or any other party, or the non-existence of such a relationship.

The CAI shall ensure that ancillary business operations which do not necessarily present conflicts of interest with the CAI's assessment business have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise.

4.2 CAI procedures and policies

The CAI shall adopt written internal procedures and mechanisms to

- a) identify, and
- b) eliminate, or manage and disclose (as appropriate)

any actual or potential conflicts of interest that can influence the assessments the CAI makes, or the judgment and analyses of the individuals the CAI employs who have an influence on assessments. The CAI's code of conduct shall also state that the CAI will disclose such conflict avoidance and management measures.

The CAI's disclosures of actual and potential conflicts of interest shall be complete, timely, clear, concise, specific and prominent.

The CAI shall disclose the general nature of its compensation arrangements with assessed entities.

The CAI and its employees shall not engage in the trading of any securities or derivatives which present conflicts of interest with the CAI's assessment activities.

4.3 CAI analyst and employee independence

Reporting lines for CAI employees and their compensation arrangements shall be structured to eliminate or effectively manage actual and potential conflicts of interest. The CAI analyst shall not be compensated or evaluated on the basis of the amount of revenue that the CAI derives from entities that the analyst assesses, or with which the analyst regularly interacts.

The CAI shall not permit employees who are directly involved in the assessment process to initiate, or to participate in, discussions regarding fees or payments with any entity they rate.