MOODY'S
INVESTORS SERVICE

European Union Transparency Report

ISSUED IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2010

Moody's Investors Service
European Union Transparency Report

Provided in Accordance with Annex 1 Section E III of Regulation (EC) No 1060/2009 of 16 September 2009 on Credit Rating Agencies, as amended (the "Regulation") in respect of the year ended 31 December 2010

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I. Introduction

1.1 Background

Moody's Investors Service ("MIS") is the oldest credit rating agency ("CRA") in the world, having introduced Credit Ratings[1] in 1909. Today, it is one of the world's most widely utilised sources for Credit Ratings, research and credit risk analysis. MIS's Credit Ratings and analysis track debt covering more than 110 countries, 25,000 public finance issuers, 12,000 corporate issuers and 106,000 structured finance obligations. MIS maintains offices in most of the world's major financial centres and employs approximately 2,700 people worldwide, including more than 1,200 analysts. In the EU, MIS operates with 7 MIS EU Subsidiaries, as well as a branch of one of those entities, employing approximately 640 staff.

MIS has prepared this first Transparency Report in the European Union ("EU") pursuant to the Regulation. Moody's Investors Service Ltd filed an initial application under the Regulation in August 2010 seeking registration on behalf of all of MIS's locally incorporated subsidiaries in the EU (the "MIS EU Subsidiaries" and each an "MIS EU Subsidiary"). At present none of the MIS EU Subsidiaries have been registered. This Transparency Report reflects the structure and operation of MIS's business in the EU for the year ended 31 December 2010, with specific information provided for each MIS EU Subsidiary as required by the Regulation. MIS anticipates that, if registered, the nature and content of this Transparency Report will evolve over time.

As part of its application, MIS has sought approval for Credit Ratings issued by its non-EU entities to be eligible for use within the EU on the basis that MIS believes this is important to help support the efficient flow of capital across national borders. MIS provides a common language for credit risk that easily translates globally to market participants. As regulation is introduced in other jurisdictions, MIS will seek to implement the necessary requirements throughout its operations in a manner that is compatible with maintaining a global Credit Rating system as discussed in section 1.4 of this Introduction.

MIS strongly supports the objectives of the Regulation in helping to restore confidence in Credit Ratings through a common and harmonised framework at an EU level. The Regulation sets out the framework for the registration, formal regulation and supervision of CRAs and is part of broader global regulatory reforms announced by the G20 for the financial sector. As they pertain to the CRA industry, these changes affect a broad spectrum of activities and controls including enhanced disclosure of Credit Ratings and methodological practices, controls relating to the management of potential conflicts of interest and a strengthened governance framework. Many of these changes will complement and build on initiatives undertaken by MIS to bolster and enhance its processes over the last several years.

The current economic downturn has exposed vulnerabilities in the infrastructure of the global financial system, and important lessons for market participants have emerged from the rapid and dramatic market changes of recent years. MIS is committed to contributing to the health, stability and vibrancy of the EU capital markets. MIS has engaged in significant analysis and has responded to concerns expressed by both the private and public sectors by undertaking initiatives to enhance the credibility of its Credit Ratings and strengthen their quality, transparency and independence. In line with MIS's continuing effort to be as transparent as possible with the market, MIS has published a list of measures that have

1 A Credit Rating is an opinion regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories.

been adopted.[2]

While MIS believes that it has made good progress, it also recognises that its practices must evolve over time along with changes in market dynamics. MIS expects to continue developing and modifying its approach in step with market needs, as well as with regulatory expectations both in the EU and internationally.

1.2. The Role and Function of MIS in the Market

CRAs occupy a narrow segment in the information industry. A CRA's role is to disseminate rating assessments about the relative creditworthiness of, among other things, bonds issued by corporations, banks and governmental entities, as well as pools of assets collected in securitised or "structured finance" obligations. By making these Credit Ratings broadly and publicly available, CRAs help to level the playing field between borrowers (issuers) and lenders (debt investors), thereby reducing information asymmetry between borrowers and lenders. CRAs sift through available information, analyse the relative credit risks associated with debt securities and/or debt issuers and provide Credit Ratings to the investing public for free. This ability to provide Credit Ratings on a freely available basis is the significant market advantage offered by the issuer-pays business model.

MIS's Credit Ratings provide predictive analysis on one characteristic of an entity – its likelihood to repay debt in a timely manner. MIS Credit Ratings of corporate issuers or obligations are based primarily on analysis of financial statements, as well as assessments of management strategies, industry positions and other relevant information. MIS's Credit Ratings of structured finance instruments are based primarily on analysis of the transaction's legal structure, the cash flows associated with the assets on which the deal is based and other risks that may affect the instruments' cash flows. MIS's analysis necessarily depends on the quality, completeness and veracity of information available to it, whether such information is disclosed publicly or provided confidentially to MIS's analysts.

The essence of MIS's service is expressing opinions on the relative credit risk of long-term, fixed-income debt instruments, expressed on a 21-category rating scale,[3] ranging from Aaa to C. MIS's Credit Ratings are opinions about the relative credit risk of one MIS-rated bond versus other MIS-rated bonds. In other words, MIS's Credit Ratings provide a perspective on the relative rank ordering of credit risk, with the likelihood of loss increasing with each downward step on the rating scale. The lowest expected loss is at the Aaa level, with higher expected losses at the Aa level, yet higher expected losses at the single-A level, and so on.

MIS believes it is essential for investors and others to understand the role of CRAs and what Credit Ratings can and cannot measure. MIS's Credit Ratings are forward-looking predictions of what may happen in the future rather than a backward-looking verification of a particular set of facts. Because the future cannot be known, credit analysis necessarily resides in the realm of opinion. As no one will be capable of accurately predicting the future, it will always be the case that, with the benefit of hindsight, some Credit Ratings will not reflect the actual future outcome. Therefore, rather than being simple "default/won't default" statements, MIS's Credit Ratings are opinions about the risk of outcomes in the future with degrees of uncertainty.

Moreover, MIS's Credit Ratings should be used primarily as a gauge of relative default probabilities and

2 See "*Strengthening Analytical Quality and Transparency,*" August 2008. See also updates of the document published in December 2008 and November 2009

3 MIS also assigns short-term ratings – primarily to Issuers of commercial paper – on a different rating scale that ranks obligations Prime-1, Prime-2, Prime-3 or Not Prime. MIS Rating Symbols and Definitions is available on www.moodys.com and contains information on other rating scales used by MIS.

expected credit loss and not as indicators of price, as measures of liquidity, or as recommendations to buy or sell securities – all of which are regularly influenced by factors unrelated to credit. MIS's Credit Ratings are not designed to address any risk other than credit risk and should not be assigned any other purpose.

MIS's success depends on its reputation for issuing objective Credit Ratings with a proven track record. MIS's Credit Ratings are publicly available on its website, www.moodys.com, together with its published rating methodologies that operate across sectors and regions. The predictive value of MIS's Credit Ratings is reported in its annual default or impairment studies and periodic Credit Ratings performance reports, which are posted on MIS's website, www.moodys.com. MIS's default or impairment studies indicate that both MIS's corporate and structured finance Credit Ratings have been reliable predictors of default over many years and across many economic cycles. In the future,[4] performance information relating to MIS's Credit Ratings will be accessible in the EU in the common repository for performance of Credit Ratings that will be established under the Regulation. MIS expects that this repository will, over time, provide the EU market with a year-on-year comparable source of information relating to the performance of its Credit Ratings.

1.3. MIS's Credit Rating Process

Typically the process for a Credit Rating begins with analysis by an assigned analyst of the issuer or obligation to be rated, followed by the convening of a rating committee meeting where the committee members discuss, debate and finally vote on the Credit Rating. The majority vote decides the outcome, and once the rating committee reaches its conclusion, the Credit Rating is published and subsequently monitored on an ongoing basis. Importantly, the Credit Rating reflects the opinion of a rating committee, and not the opinion of an individual analyst, as to the relative creditworthiness of the issuer or obligation.[5] Although rating criteria may differ from one sector (e.g., corporate) to another (e.g., structured finance), essentially the same Credit Rating process is employed in all sectors. MIS does not have analysts who are designated as "committee analysts." The composition of MIS's rating committees and the number of participants in a rating committee normally depends on the specific circumstances of the issuer or obligation under consideration and, as appropriate, may include analysts from different rating groups, analysts with different levels of seniority and analysts with specialist expertise.

MIS's Credit Ratings are not usually derived solely from the application of a mathematical process, or a "model." While MIS sometimes uses quantitative models to assist its analysis and enhance consistency in its decision-making, model results are just one factor that may be considered by a rating committee. MIS's Credit Ratings typically take into account qualitative as well as quantitative factors and are intended to reflect the exercise of judgment about the expected creditworthiness of an issuer or obligation. Moreover, each rating committee member is expected to apply his or her own independent judgment in the decision-making process. Ultimately, Credit Ratings are subjective assessments that reflect the majority view of the rating committee's members.

4 See Article 11(2) of the Regulation.

5 Limited exceptions to this include securities issued pursuant to a programme or a series over time, or a category of debt that is subject to an existing Credit Rating. MIS conducts a rating committee when the category of debt or programme is initially rated or when a rating action is taken on the programme or series or category of debt as a whole, but often does not hold any further rating committee for a subsequent issuance of the same category of debt or issuances pursuant to a programme. For securities that are rated based on the pass-through of a support provider's rating, MIS holds a rating committee and publishes a rating action on the support provider when initially rated or when a Credit Rating change occurs, but often does not hold a further rating committee for the specific securities that derive their Credit Ratings from the support provider's Credit Rating.

1.4 MIS's Integrated Approach

MIS's methodologies, where feasible and appropriate, are global in nature and are tailored to take account of regional or national considerations. In turn, MIS's Credit Ratings are intended to be globally comparable measures of credit risk and, from a credit perspective, are not generated by any one subsidiary but by MIS as a whole. Consequently, MIS analysts and rating teams operate across sectors *e.g.* the utilities sector, rather than in any one specific jurisdiction. This approach facilitates peer analysis of credits on a regional and international basis with adjustments being made to take account of relevant credit factors arising from geographical location (e.g. credit considerations relating to the national law pertaining to an issuer or obligation). In practice, the rating committee that determines any Credit Rating may be comprised of analysts based in any number of MIS's offices globally. In this manner, MIS strives to analyse the credit of any one issuer or obligation in a way that is broadly comparable to its international and regional peers, thereby assisting further in generating Credit Rating consistency across borders and regions.

MIS's approach to achieving consistency in its Credit Ratings and adherence to the Regulation within each MIS EU Subsidiary is reflected in the structure of its management and the operation of its core support functions. The mechanisms to achieve this are: (i) the global, regional and national management structure employed by MIS coupled with the pivotal role of the Head of MIS EMEA and (ii) the cross jurisdictional operation of its support functions, including the Credit Policy Group and the MIS Compliance Department. Each is discussed in more detail below.

(i) MIS Management Structure

GLOBAL MANAGEMENT

MIS's management structure is established on a global, regional and national basis across jurisdictions discussed in section VII of this Transparency Report. MIS's organisational structure and decision making procedures clearly specify reporting lines and allocate functions and responsibilities.

The Chief Executive Officer of MIS is Mr Raymond W. McDaniel Jr, who is also chairman and chief executive of MCO. Mr McDaniel is based in New York. The President and Chief Operating Officer of MIS is Mr Michel Madelain who is based in London.

REGIONAL MANAGEMENT

MIS's management group is complemented by 3 regional managers for each of EMEA, Asia/Pacific and the Americas. Mr Frédéric Drevon is the Head of MIS EMEA and is based in London. The role of the Head of MIS EMEA is critical to maintain information flow between the MIS EU Subsidiaries and provide centralised oversight of the group of MIS EU Subsidiaries. The Head of MIS EMEA is responsible for overseeing the management of the MIS EU Subsidiaries as conducted by the relevant country manager, so that each MIS EU Subsidiary is kept apprised of significant issues that may arise from time to time. MIS's regional management reporting structure in the EU is further enhanced by MIS's corporate governance; in his capacity as Head of MIS EMEA, Mr Frédéric Drevon is a member of the board of directors and/or the Supervisory Bodies[6] of each MIS EU Subsidiary and is the country manager for Moody's Investors Service Ltd. Further, this structure establishes national responsibility for adherence to the Regulation at the level of each MIS EU Subsidiary and regional oversight and responsibility for the group of MIS EU Subsidiaries at the level of the Head of MIS EMEA.

6 The Supervisory Bodies comprise the supervisory board of Moody's France SAS, the board of directors of each of Moody's Investors Service Ltd and Moody's EMEA Ltd and the advisory board (Beirat) of Moody's Deutschland GmbH.

NATIONAL MANAGEMENT

Each MIS EU Subsidiary is managed on a day-to-day basis by a country manager who, as noted above, reports in this capacity to the Head of MIS EMEA. Country managers are responsible for, among other things, reviewing the adequacy of support provided to the relevant MIS EU Subsidiary by MIS's service functions, such as the MIS Compliance Department and the Credit Policy Group, or from other MIS entities via outsourcing arrangements.

LINE OF BUSINESS MANAGEMENT

MIS's Credit Rating groups are also organised with regional and global reporting lines that operate across four main lines of business: 1) corporate finance, 2) public finance and infrastructure finance, 3) structured finance and 4) financial institutions. An international manager for each line of business reports to the President and Chief Operating Officer of MIS and is supported by a corresponding regional line of business manager in each of MIS' three main regions of operation (Americas, EMEA and Asia). A series of further managers, responsible for overseeing individual rating teams that may be geographically dispersed, report to the relevant regional line of business manager. This cross border reporting structure results in an escalation and ultimate appropriate resolution of any line of business issue on an international or regional basis, irrespective of the country in which the issue may have arisen. Similarly, to the extent possible, decisions taken relating to a particular line of business are implemented by the relevant management across jurisdictions or regions.

(ii) Cross Jurisdictional Support Functions.

Within the EU certain of MIS's core support functions operate regionally and report to the manager of the relevant function in the EU or to the global manager of the relevant function. These service functions include: the Credit Policy Group, the MIS Compliance Department, the Commercial Group, Finance, Legal, Human Resources and Information Technology. Importantly, these functions provide support to each MIS EU Subsidiary (operating across lines of business and across jurisdictions rather than per subsidiary).

CREDIT POLICY GROUP

Within MIS, the Credit Policy Group is tasked with, among other things, promoting consistency and quality in Credit Ratings globally. Because Credit Ratings are issued across sectors and regions, as described above, the Credit Policy Group also operates internationally and regionally across sectors or lines of business rather than in any one particular jurisdiction. Consequently, individual members of the Credit Policy Group focus on methodologies and Credit Ratings in a particular sector or line of business — irrespective of their geographical location or the MIS entity that is deemed to issue the Credit Rating under the Regulation. The Credit Policy Group is independent of MIS's business management structure. The Credit Policy Group in the EU forms an integral part of the global Credit Policy Group but is overseen regionally by the EU chief credit officer who reports to the MIS global chief risk officer. The Credit Policy Group in the EU will provide reports to the boards of directors of and/or the Supervisory Bodies of the MIS EU Subsidiaries. Where appropriate, this structure results in cross-jurisdictional implementation in a consistent manner of any enhancements in best practices or changes in methodological approach.

MIS COMPLIANCE DEPARTMENT

The MIS Compliance Department in the EU is an integral part of the global MIS Compliance Department and is independent of the business management. Irrespective of their location, nominated compliance officers provide compliance services to specific MIS EU Subsidiaries and report to the managing director of the MIS global Compliance Department. The global MIS Compliance Department oversees MIS's largely international policies and procedures and adherence by MIS to the Regulation. In accordance with the Regulation, the boards of directors of all MIS EU Subsidiaries and/or the Supervisory Bodies will receive reports from the MIS Compliance Department. In practice, this structure means that compliance-related decisions that involve changes to international or regional business practice or policies are replicated, where appropriate, across all MIS entities, including the MIS EU Subsidiaries.

II. Legal structure and ownership

The legal structure and ownership of the MIS EU Subsidiaries to which the Regulation is applicable is as follows:

- Moody's Investors Service Ltd,[7]
- Moody's EMEA Ltd,
- Moody's Deutschland GmbH,
- Moody's France SAS,
- Moody's Investors Service España S.A.,
- Moody's Investors Service Cyprus Ltd, and
- Moody's Italia S.r.l.

Each MIS EU Subsidiary is a wholly-owned indirect subsidiary company of MCO, a Delaware (USA) incorporated company listed on the New York Stock Exchange ("NYSE").

All of the MIS EU Subsidiaries are private limited companies except for Moody's Investors Service España S.A., which is a public limited company. Each MIS EU Subsidiary is incorporated in accordance with applicable national law.

7 Including its Czech Branch, Moody's Investors Service Ltd, organizační složka.

III. Internal control mechanisms ensuring the quality of MIS's Credit Rating activities

MIS's approach to maintain key internal control measures to ensure the quality of its Credit Rating activities includes the items outlined below:

(i). Governance

Each of the MIS EU Subsidiaries benefits from an effective governance structure that operates in accordance with the requirements of the Regulation and national law, involving regional and functional management oversight. In addition, MIS has established Supervisory Bodies in accordance with the Regulation with independent members at Moody's Investors Service Ltd, Moody's EMEA Ltd., Moody's Deutschland GmbH, and Moody's France SAS.

(ii). Credit Policy Group

MIS's Credit Policy Group is a key part of the control and analytical support framework within MIS. The Credit Policy Group is independent of and separate from the ratings teams that are principally responsible for producing the Credit Ratings. The group is overseen by MIS's chief risk officer, who is directly accountable to MCO's chief executive officer and also reports quarterly to MCO's board of directors. Its role is to promote quality, consistency and transparency in MIS's credit analysis globally. Its responsibilities fall into three broad areas: 1) promotion of the consistency and quality of MIS's Credit Ratings including overseeing key rating assumptions and MIS's annual review of Credit Ratings; 2) review and approval of methodologies (including of changes of existing methodologies) and verification of models used as part of methodologies; and 3) assessment of Credit Ratings performance. The Credit Policy Group's operative arms are standing committees — one for each of MIS's core lines of business and one further senior standing committee. These standing committees are comprised of MIS individuals from the Credit Policy Group and MIS's lines of business internationally. The EU Credit Policy Group is integrated within and contributes to the global Credit Policy Group infrastructure, but is a separately identifiable organisational unit managed by the EU chief credit officer. As a senior member of the Credit Policy Group's management team, the EU chief credit officer provides reports to the boards of directors and/or the Supervisory Bodies of each MIS EU Subsidiary on a regular basis.

(iii). MIS Compliance Department

The MIS Compliance Department is part of the wider legal, compliance and regulatory affairs group which reports to MCO's global general counsel and is independent of the lines of business. It is responsible for assessing MIS's adherence to regional and local laws and regulations as well as codes of conduct, policies and procedures and guidelines. The MIS Compliance Department monitors the adequacy and effectiveness of the measures and procedures put in place to maintain compliance with the Regulation and provides reports to the boards of directors and/or the Supervisory Bodies of each MIS EU Subsidiary on a regular basis.

(iv). Internal Audit

Although not a requirement of the Regulation, MCO maintains a centralised and independent Internal Audit Function, which is responsible for performing internal audit in relation to all MIS entities, including the MIS EU Subsidiaries. The Internal Audit Function is responsible for bringing a systematic and disciplined approach to evaluating and improving the effectiveness of MCO's internal controls and governance processes. As an NYSE listed company, the board of directors of MCO has established an Audit Committee (the "MCO Audit Committee").

(v). Enterprise Risk Management

Although not a requirement of the Regulation, MCO has established an Enterprise Risk Management Function with a global remit, including the MIS EU Subsidiaries. It is tasked with identifying principal operational risks across MIS's business and prepares, among other matters, a report relating to MIS that is provided to the boards of directors and/or the Supervisory Bodies of each MIS EU Subsidiary.

(vi). Codes of conduct

MIS operates under MCO's "Code of Business Conduct" and the "MIS Code of Professional Conduct" which set out guiding principles to which each employee and corporate director is expected to adhere.

(vii). Policies and procedures

The principles established by the codes of conduct described above are elaborated upon in MIS's policies, procedures and guidelines. These documents implement MIS's obligations under applicable laws and regulations in the countries in which it operates and govern the conduct of employees during the Credit Rating process. The documents establish a consistent approach throughout MIS and extend to, among other matters, the independence of the Credit Rating process, the avoidance of conflicts of interest and disclosure requirements.

(viii). Management of conflicts of interest

We believe that all business models for credit ratings agencies embed potential conflicts of interest. Whilst it is not possible for MIS to eliminate all conflicts in its business model, those that cannot be eliminated are identified, managed and disclosed to maintain objectivity, independence and integrity in the Credit Rating process. MIS has published a list of its actual and potential conflicts[8] and has adopted policies and procedures to prevent, identify and manage them. In particular MIS has instigated the processes outlined below:

1. MIS's codes of conduct establish both high-level principles addressing potential conflicts of interest and high standards on the handling of confidential information. Pursuant to MIS's policies, procedures and guidelines, employees are subject to restrictions with respect to receipt of gifts, personal ownership and trading of securities, and other personal interests that could create a potential conflict with the independence of MIS's Credit Rating activities.

2. MIS is operationally and legally segregated from MCO's non-ratings businesses.

3. As an institution, MIS does not act as a principal or make markets in securities.

8 See "MIS Disclosure on Conflicts of Interest" as published from time to time in the "Ratings Disclosures" section on www.moodys.com

4. MIS's Commercial Group[9] is operationally segregated from any analytical line of business and any involvement in Credit Rating activities and analysts are required to refrain from participating in fee or payment discussions with issuers or their agents.

5. Typically, Credit Ratings are determined by rating committees rather than an individual analyst.

6. Analysts are not compensated or evaluated on the basis of the amount of revenue that MIS derives from issuers that the analyst rates or with which the analyst regularly interacts.

7. MIS has introduced a mechanism for the gradual rotation of rating analysts to protect their independence.[10]

8. MIS conducts a "look-back review" when an analyst leaves MIS and joins an issuer with which he or she had significant dealings as part of his or her duties as an analyst.

MIS expects each employee and corporate director to follow these policies and procedures and the MIS Compliance Department monitors employee conduct regarding potential conflicts of interest.

(ix). Rating committee

Typically, Credit Ratings are determined by rating committees pursuant to a majority vote of the rating committees' voting members and, not by individual analysts. The rating committee is a critical mechanism for promoting the quality, consistency and integrity of MIS's Credit Ratings. MIS has established policies and procedures governing the preparation for, convening and conduct of rating committees. Amongst other things, those policies and procedures cover the composition of rating committees, the type, quality and format of information which needs to be provided, voting procedures, how conflicts of interest are to be avoided and how confidentiality should be maintained.

(x). Methodologies

MIS's methodologies are made publicly and freely available on its website; they are global in nature but are tailored to take account of regional considerations. New methodologies or changes to existing methodologies are approved by the Credit Policy Group. They are subject to ongoing refinement and are reviewed at least annually. MIS's methodologies represent the core of MIS's analytical approach in a given sector and are applied consistently in the Credit Rating process.

(xi). Surveillance

Except for Credit Ratings that clearly indicate that they do not entail ongoing surveillance, once a Credit Rating is published, MIS typically monitors it continuously and reviews it at least annually until the Credit Rating is withdrawn. In most of the Credit Rating groups, surveillance of Credit Ratings is conducted by the same analytical team that is responsible for the initial Credit Rating. In the Structured Finance Group ("SFG"), however, much of surveillance is performed primarily by separate teams of surveillance analysts.

9 MIS's Commercial Group is charged with global responsibility for business strategy and planning, new business orientation and business relationships with issuers.

10 See Section VII below for further information on MIS's approach of analyst rotation.

(xii). Credit Ratings performance

MIS's Credit Ratings and methodologies are publicly and freely available on its website, www.moodys.com, enabling third parties to assess the performance of Credit Ratings. MIS also periodically analyses the performance of its Credit Ratings to assess their consistency and quality. MIS publishes information including, historical default and impairment rates for main geographic areas by Credit Rating category, the transitions between Credit Rating categories, and other periodic performance metrics so that financial market professionals can understand the historical performance of securities assigned to different Credit Rating categories. As discussed in the Introduction, MIS anticipates that over time, the publication of Credit Rating performance information in the common repository under the Regulation will provide the EU market with a year-on-year comparable source of information relating to the performance of Credit Ratings.

IV. Allocation of staff in each MIS EU Subsidiary

As outlined in section III (xi) above, surveillance staff in SFG are typically segregated from analytical staff who are responsible for the initial Credit Rating. Consequently, within SFG, staff may be allocated separately to new Credit Ratings and to Credit Rating reviews. In other Credit Rating groups surveillance of Credit Ratings typically is conducted continuously by the same analytical team that is responsible for the initial Credit Rating. MIS allocates staff in these Credit Rating groups to a new Credit Rating but does not allocate staff separately to a Credit Rating review.

The data presented in this section[11] relate to the allocation of staff in each of the MIS EU Subsidiaries under following categories outlined below[12].

- **Each of new Credit Ratings and Credit Rating reviews:** The data presented[13] do not distinguish between staff allocation for new Credit Ratings and Credit Rating Reviews.
- **New Credit Ratings only:** The data presented includes staff in SFG assigned to new Credit Ratings.
- **Credit Rating reviews only:** The data presented includes staff in SFG assigned to Credit Rating reviews.
- **Methodology appraisal:** As noted in section 3 above, MIS's methodologies, where feasible and appropriate, are global in nature and are tailored to take account of regional or national considerations. Although MIS's Credit Policy Group operates globally, in the EU and nationally across lines of business as set out in section III (ii) above, only employees of the Credit Policy Group in the EU are identified below.
- **Model appraisal:** The MIS model appraisal team is part of MIS's global Credit Policy Group and is tasked with reviewing models that are used globally. They are located in the United States undertaking model review for all MIS entities, including the MIS EU Subsidiaries, and are supported by third party vendors.
- **Credit Ratings support staff:** This category includes staff in each of the MIS EU Subsidiaries who directly support Credit Rating analysts enabling them to allocate greater time to core analytical responsibilities. These include staff in the Global Middle Office, the Communications Group, and other support or administrative functions within within the MIS EU Subsidiaries.
- **Senior Management:** This category comprises the persons who effectively direct the business of each of the MIS EU Subsidiaries and the member or members of its administrative or supervisory board[14].

11 For purposes of this Transparency Report, all data and statistics cited below are provided as of 31 December 2010.
12 Frequently, non-EU based analysts will participate in Credit Rating activities for both new Credit Ratings and Credit Rating reviews alongside EU analysts. However, the data listed below only includes staff based in each of the relevant MIS EU Subsidiaries.
13 Staff identified here may participate in Credit Rating activities as well as non Credit Rating activities of MIS (as defined in section IX below).
14 See section IX below for further details on the Senior Management of each of the MIS EU Subsidiaries. Senior Management data is provided for each MIS EU Subsidiary regardless of whether or not a member of the Senior Management is employed by the relevant entity.

MOODY'S INVESTORS SERVICE LTD*	
Each of new Credit Ratings and Credit Rating reviews:	109
New Credit Ratings only:	47
Credit Rating reviews only:	31
Methodology Appraisal:	8
Model Appraisal:	0
Credit Ratings support staff;	76
Senior Management:	6

* This includes staff located in its Czech branch, Moody's Investors Service Ltd, organizační složka.

MOODY'S EMEA LTD	
Each of new Credit Ratings and Credit Rating reviews:	0
New Credit Ratings only:	1
Credit Rating reviews only:	0
Methodology Appraisal:	0
Model Appraisal:	0
Credit Ratings support staff;	0
Senior Management:	6

MOODY'S DEUTSCHLAND GMBH	
Each of new Credit Ratings and Credit Rating reviews:	34
New Credit Ratings only:	12
Credit Rating reviews only:	9
Methodology Appraisal:	0
Model Appraisal:	0
Credit Ratings support staff;	23
Senior Management:	10

MOODY'S FRANCE SAS	
Each of new Credit Ratings and Credit Rating reviews:	15
New Credit Ratings only:	10
Credit Rating reviews only:	9
Methodology Appraisal:	2
Model Appraisal:	0
Credit Ratings support staff;	4
Senior Management:	7

MOODY'S ITALIA S.R.L.	
Each of new Credit Ratings and Credit Rating reviews:	14
New Credit Ratings only:	7
Credit Rating reviews only:	1
Methodology Appraisal:	0
Model Appraisal:	0
Credit Ratings support staff;	2
Senior Management:	3

MOODY'S INVESTORS SERVICE ESPAÑA S.A.	
Each of new Credit Ratings and Credit Rating reviews:	13
New Credit Ratings only:	7
Credit Rating reviews only:	3
Methodology Appraisal:	0
Model Appraisal:	0
Credit Ratings support staff;	0
Senior Management:	3

MOODY'S INVESTORS SERVICE CYPRUS LTD	
Each of new Credit Ratings and Credit Rating reviews:	10
New Credit Ratings only:	0
Credit Rating reviews only:	0
Methodology Appraisal:	0
Model Appraisal:	0
Credit Ratings support staff;	1
Senior Management:	3

V. MIS's Record-keeping Policy

Record-keeping processes in the MIS EU Subsidiaries are governed by the MIS Policy for Record Retention (the "Record Retention Policy") and the MIS Record Retention Process and Procedures for Records Used in the Ratings Process (the "Record Retention Procedure").

The Record Retention Policy establishes global high-level principles for gathering, filing and, where appropriate, disposal of documents to or from MIS's document retention system in accordance with applicable law and regulation in the jurisdictions in which MIS operates. It categorises records which, in turn, dictates the management of the relevant document, including the duration of the document's retention. The Record Retention Procedure details obligations with respect to how documents are filed or disposed, including, among other things, establishing specific timelines for filing of documents and identifying when and how delegation of filing is permitted.

Records that are required to be retained include documents obtained during the Credit Rating process, whether provided by external sources or created by MIS. In addition, credit relevant documents are generally retained in a consolidated file for each issuer. Access rights to the document management database are restricted to maintain the confidentiality of the information stored.

Records of contractual relationships with issuers, along with exchanges with issuers related to commercial and fee information, are handled by the Commercial Group that is segregated from the analytical teams. Those records that relate to contracts, commercial or fee information are electronically filed in a separate retention system from the records filed as part of the analytical process.

VI. Internal Audit review of MIS's Compliance Department

The MCO Internal Audit Department completed its annual audit of the MIS Compliance Department. The audit included reviewing the independence of the MIS Compliance Department and staff, and processes used to monitor policies, procedures and guidance over the rating process. The audit determined that the MIS Compliance Department is operating independently within MIS. MIS Compliance Department management is implementing the recommendations made as part of the audit to enhance existing processes and procedures.

VII. MIS's management and analyst rotation policy

(i). MIS's management

As discussed in the Introduction, MIS's management structure operates with global, regional and national dimensions. MIS's Credit Rating groups are organised along specific lines of business with regional and global reporting lines that operate across jurisdictions. A series of managers, responsible for overseeing individual rating teams, report to a regional manager for each line of business, who in turn reports to a global line of business manager.

Each MIS EU Subsidiary is managed by a country manager who reports in such capacity to the Head of MIS EMEA. The Head of MIS EMEA is also member of the board of directors and/or the Supervisory Body of each MIS EU Subsidiary.

MIS's core support functions (including the Credit Policy Group and the MIS Compliance Department) operate regionally and report to the manager of the relevant function in the EU or to the global manager. Please see the Introduction for further explanation of the operation of MIS's structure and section IX of this Transparency Report for further information on MIS's management and corporate governance in each of the MIS EU Subsidiaries.

(ii). MIS's analyst rotation policy

MIS's approach to rotation of analysts is set out in the Moody's Investors Service Policy and Procedures for Analyst Rotation for Ratings Issued by MIS EU CRAs (the "Rotation Policy"). The purpose of the Rotation Policy is to introduce a rotation mechanism to provide a gradual change in lead analysts, rating analysts and persons approving Credit Ratings. The Rotation Policy applies to all MIS EU Subsidiaries, except for those entities who are granted an exemption from its full application under the Regulation[15]. MIS will rotate lead analysts every four years, rating analysts every five years and persons approving Credit Ratings every seven years. In SFG, the Rotation Policy will be extended to related third parties of the rated entity. When rotated, analysts will be subject to a minimum 2 year "cooling off" period in which they are prohibited from engaging in Credit Rating activities with respect to the applicable issuer or related third party. In order to achieve gradual analyst rotation, MIS anticipates that it will commence rotating analysts prior to 2014.

15 Moody's Investors Service España S.A., Moody's Investors Service Cyprus Ltd. and Moody's Italia S.r.l. have applied to be exempted from the requirements of the Rotation Policy.

VIII. Revenue of each MIS EU Subsidiary

The revenue[16] of each of the MIS EU Subsidiaries is derived from Credit Rating Services and Non-Credit Rating Services, as defined below and is shown for the financial year ended 31 December 2010. Defined Terms used in this section have the meanings set out below.

- **"Credit Rating Services":** Those products and services that are offered by MIS, that are derived from the Credit Rating process and that provide an opinion regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories.
- **"Non-Credit Rating Services":** Comprise Ancillary Services and Other Permissible Services.
- **"Ancillary Services":** Those products and services that may be offered by MIS, that are not Credit Rating Services, and that comprise market forecasts, estimates of economic trends, pricing analysis or other general data analysis as well as related distribution services. In the EU, MIS does not currently offer any Ancillary Services.
- **"Other Permissible Services":** Those products and services that MIS may offer that are neither Credit Rating Services nor Ancillary Services and that are identified by MIS from time to time in MIS's Rating Symbols and Definitions that is publicly available on MIS's website, www.moodys.com. In the EU, Non-Credit Rating Services offered in 2010 include: Money Market, Bond Fund and Market Risk Ratings, Investment Manager Quality Ratings, Hedge Fund Operational Quality Ratings, Credit Estimates, Rating Assessment Services and Indicative Ratings, each as defined in the Rating Symbols and Definitions.

UK - MOODY'S INVESTORS SERVICE LTD*	
2010	**MM US$**
Credit Rating Services	178.7
Non-Credit Rating Services	21.3
Total Revenue	**200.0**
* Includes its Czech Branch	

UK - MOODY'S EMEA LIMITED	
2010	**MM US$**
Credit Rating Services	0
Non-Credit Rating Services	0
Total Revenue	**0**

16 Total Revenue in this section is the unaudited revenue shown in the draft statutory accounts for the relevant MIS EU Subsidiary. MIS's systems do not disaggregate revenue for Credit Rating Services from Non-Credit Rating Services. Consequently, revenue shown in respect of Non-Credit Rating Services is based on MIS's billings issued during the relevant year and revenue shown for Credit Rating Services represents the balancing figure. In general, there is a high correlation between billings and revenues in any particular year.

GERMANY - MOODY'S DEUTSCHLAND GMBH	
2010	**MM US$**
Credit Rating Services	60.1
Non-Credit Rating Services	2.9
Total Revenue	**63.0**

FRANCE - MOODY'S FRANCE SAS	
2010	**MM US$**
Credit Rating Services	33.2
Non-Credit Rating Services	1.1
Total Revenue	**34.3**

SPAIN – MOODY'S INVESTORS SERVICE ESPANA SA	
2010	**MM US$**
Credit Rating Services	30.1
Non-Credit Rating Services	0.9
Total Revenue	**31.0**

ITALY - MOODYS ITALIA S.R.L.	
2010	**MM US$**
Credit Rating Services	21.1
Non-Credit Rating Services	0.9
Total Revenue	**22.0**

CYPRUS – MOODY'S INVESTORS SERVICE CYPRUS LTD	
2010	**MM US$**
Credit Rating Services	5.0
Non-Credit Rating Services	0.4
Total Revenue	**5.4**

IX. Governance statement

As a NYSE listed company, MCO complies with the NYSE's Corporate Governance Listing Standards. MIS has recently restructured its approach to governance in the EU to comply with the requirements of the Regulation. Certain MIS EU Subsidiaries have sought approval for exemptions from particular corporate governance requirements of the Regulation, including with respect to the presence of independent board members (as outlined below).

9.1. Supervisory Bodies – structure and members

MIS has established appropriate Supervisory Bodies for each of Moody's Investors Service Ltd, Moody's EMEA Ltd, Moody's Deutschland GmbH and Moody's France SAS (together the "Larger Entities"). An enhanced unitary board has been established for each of Moody's Investors Service Ltd and Moody's EMEA Ltd, an advisory board (*Beirat*) has been established for Moody's Deutschland GmbH and a supervisory board has been established for Moody's France SAS.

(i). Supervisory Bodies' composition

The composition of the Supervisory Bodies is as follows:

» **Moody's Investors Service Ltd and Moody's EMEA Ltd**

Four MIS members: Raymond McDaniel, Michel Madelain, Frédéric Drevon, Nigel Phipps and two independent members: Rodolfo Bogni, Jean-François Théodore.

» **Moody's Deutschland GmbH**

Four MIS members: Raymond McDaniel, Michel Madelain, Nigel Phipps, Stuart Hughes and three independent members: Rodolfo Bogni, Jean-François Théodore, Hermann Wagner.

» **Moody's France SAS**

Three MIS members: Raymond McDaniel, Michel Madelain, Nigel Phipps and two independent members: Rodolfo Bogni, Jean-François Théodore

The composition of the administrative board of directors (or equivalent body under national law) of each of Moody's Deutschland GmbH and Moody's France SAS, which is separate from the relevant Supervisory Body, is as follows:

» **Moody's Deutschland GmbH**

Daniel Kolter (*Geschäftsführer*), Detlef Scholz (*Geschäftsführer*), Frédéric Drevon (*Geschäftsführer*)

» **Moody's France SAS**

Frédéric Drevon (President), Eric de Bodard (Delegate General Manager)

(ii). Expertise

Each member of the Supervisory Bodies is of good repute and sufficiently skilled and experienced in order to perform his or her respective function. A majority of the members of each of the Supervisory Bodies, and all of the independent members, have sufficient expertise in all relevant areas of financial services. In addition, at least one independent member of each of the Supervisory Bodies and one other member of each of the Supervisory Bodies has in-depth knowledge and experience, at a senior level, of the markets in structured finance instruments.

(iii). Independence

Not less than two and at least one-third of the members of each of the Supervisory Bodies are independent. The independent members are free of any business, family or other relationship with each relevant entity, its controlling shareholder or the management of either, that creates a conflict of interest that would impair his judgement. In addition, independent members are not involved in Credit Rating activities.

(iv). Term of appointment

Each of the Supervisory Bodies' independent members have been appointed for a pre-agreed, fixed period of no longer than five years. The independent members may only be dismissed in the event of misconduct or professional underperformance. The terms of appointment for other non-independent members of the Supervisory Bodies is not fixed.

(v). Time commitment and compensation

The independent members have sufficient time to meet the expectations of their role. The independent members must inform the chairman of each of the Supervisory Bodies before accepting any directorships, certain consultancy posts or similar offices with other companies. The compensation of each independent member is not linked to the business performance of the relevant MIS EU Subsidiary (or any other MIS entity globally and is arranged in order to ensure the independence of the relevant independent member's judgment. Other non-independent members of the Supervisory Bodies do not receive any additional remuneration for their role.

9.2. Supervisory Bodies – role and responsibilities

(i). *Supervisory Bodies*' remit

The remit of the Supervisory Bodies includes the following:

- ensuring the independence of Credit Rating activities, including independence from all political and economic influences or constraints;
- proper identification, management and disclosure of conflicts of interest;
- sound and prudent management of the relevant entity;
- ensuring the relevant entity's compliance with the Regulation;
- consideration of reports from the MIS Compliance Department;
- consideration of reports from the "review function" (MIS's Credit Policy Group); and
- consideration of the opinions of the independent members.

(ii). Role of the independent members

In addition to the above, the independent members have a specific remit to:

- monitor: (a) the development of Credit Rating policy and methodologies; (b) the effectiveness of internal controls; (c) the effectiveness of conflicts of interest procedures; and (d) the compliance and governance processes, including the efficiency of the "review function" (MIS's Credit Policy Group);
- provide opinions to the relevant Supervisory Body; and
- allow these opinions to be made available to competent authorities upon request.

The independent members of the Supervisory Bodies are not involved directly in Credit Rating activities; nonetheless, they may request information from the relevant entity regarding that entity's activities in relation to any of the matters that fall within their remit above.

9.3. Supervisory Bodies – proceedings

The Supervisory Bodies meet not less than half-yearly, with provision for ad hoc meetings to be called by the chairman if required in order to enable a Supervisory Body to fulfil its regulatory requirements. The quorum for meetings of the Supervisory Bodies is a minimum of four members, of whom: (i) at least half are MIS members; and (ii) at least two are independent members. Decisions of the Supervisory Bodies are taken by simple majority vote, subject to the applicable provisions of the relevant entity's constitutional documents in respect of directors' conflicts of interest.

9.4. Exempt Entities under the Regulation

In accordance with Article 6(3) of the Regulation, MIS has applied for certain exemptions from the requirements of the Regulation in respect of each of Moody's Investors Service Cyprus Ltd, Moody's Italia S.r.l. and Moody's Investors Service España S.A. (together, the "Exempt Entities"). The exemptions have been applied for on the basis that each of the Exempt Entities has substantially fewer than 50 employees and there are appropriate alternative measures in place to effect compliance with the objectives of the Regulation.

In respect of point 2 of Section A of Annex I of the Regulation, MIS considers that the requirement for at least one-third, and not less than two, of the members of the Supervisory Body to be independent is disproportionate given the size of the Exempt Entities. Further, the boards of directors of the Exempt Entities do not have independent members, but do operate as fully constituted boards established in accordance with the requirements of national law. The senior management of the Exempt Entities are of good repute and sufficiently skilled and experienced and are responsible to ensure the sound and prudent management of the relevant company. All members of the boards of the Exempt Entities have sufficient expertise in financial services. Each Exempt Entity is organised in a way that its business interest does not impair the independence or quality of Credit Rating activities. The Head of MIS EMEA performs a similar role on the boards of the Exempt Entities to that which the independent members perform in respect of the Supervisory Bodies.

The composition of the board of each of the Exempt Entities is as follows:

» **Moody's Investors Service Cyprus Limited**

Frédéric Drevon, Jehad el Nakla, Mardig Haladjian

» **Moody's Italia S.r.l.**

Frédéric Drevon, Alex Cataldo, Eric de Bodard

» **Moody's Investors Service España, S.A**

Frédéric Drevon, Juan Pablo Soriano, Ian Glover

Each Exempt Entity has implemented measures and procedures which ensure effective compliance with the other requirements of the Regulation; in particular, in respect of internal control mechanisms, reporting arrangements, and measures ensuring the independence of its rating analysts and persons approving its Credit Ratings. The size of the Exempt Entities has not been determined in such a way as to avoid compliance with these requirements of the Regulation. In addition, the governance requirements set out in the Regulation are addressed in full by each of the Larger Entities.

9.5. Internal controls, compliance function, review function and conflicts management

Please See Section III of this Transparency Report for information.

9.6. Audit

(i). Audit function

None of the Larger Entities or Exempt Entities has its own specific audit committee. This is not a requirement of the Regulation, nor of the corporate governance requirements of the Larger Entities or Exempt Entities in the EU.

The MCO Audit Committee has oversight over MCO and all its subsidiaries, including each of the MIS EU Subsidiaries.

(ii). Purpose

The MCO Audit Committee's primary purpose is to represent and assist MCO's board of directors in fulfilling its oversight responsibilities relating to:

(a) the integrity of the financial statements and the financial information provided to the company's shareholders and others;

(b) compliance with legal and regulatory requirements;

(c) internal controls; and

(d) the audit process, including the qualifications and independence of the independent auditors, and the performance of the internal audit function and of the independent auditors.

The MCO Audit Committee also oversees the preparation of the report required by the Securities and Exchange Commission's rules to be included in the annual proxy statement (Form 10K).

(iii). Membership and meetings

The MCO Audit Committee is comprised of at least three directors, as appointed by the board of directors of MCO upon the recommendation of the governance and compensation committee, including one chairman. Each member of the MCO Audit Committee must meet the independence requirements of the NYSE for directors and MCO Audit Committee members, and must be financially literate, both as determined by the board of directors. At least one member of the MCO Audit Committee must be an "Audit Committee Financial Expert", as determined by the board of directors of MCO in accordance with the rules and regulations of the Securities and Exchange Commission.

Meetings must be held at least quarterly and additional meetings may be held as needed. The MCO Audit Committee reports to the board of directors of MCO on its activities on a regular basis. The MCO Audit Committee also meets separately with representatives of the independent auditors and the Vice President of the Internal Audit Function at least once a quarter and periodically with members of management as the MCO Audit Committee determines appropriate.

(iv). Duties and responsibilities

In furtherance of its duties and responsibilities, the MCO Audit Committee has authority for the following areas: (a) financial reporting; (b) independent auditors; (c) compliance; and (d) outside advisers.

9.7. Share ownership, amendments to constitutional documents, board appointments and powers, and shareholder meetings

Each of the MIS EU Subsidiaries is an indirect wholly-owned subsidiary of MCO. The ultimate parent, MCO, is listed on the NYSE. There are no holders of securities with special control rights or restrictions on voting rights in respect of the shares of the Larger Entities or Exempt Entities.

The following entities have significant indirect shareholdings in each of the Larger Entities and Exempt Entities through their shareholdings in MCO (as disclosed to MCO prior to the date of publication of this Transparency Report):

Berkshire Hathaway, Inc.	12.3%
Capital World Investors	12.3%

For further detail of the share capital structure of the MIS EU Subsidiaries, see section II of this Transparency Report.

The articles of association of the MIS EU Subsidiaries may be amended in accordance with applicable national law. The directors or managers (as applicable) of each of the Larger Entities have the duties and responsibilities set out at sections 9.2 (i) and (in the case of independent members) 9.2 (ii) above. In addition, the directors or managers (as applicable) of each of the MIS EU Subsidiaries have the powers (including in respect of issuing and buying back shares) conferred on them by applicable national law and the constitutional documents of the relevant entity. Subject to the requirements of the Regulation (to the extent applicable), the members of the board of directors of each of the MIS EU Subsidiaries may be appointed to, or removed from, office in accordance with applicable national law and the constitutional documents of the relevant entity. The operation of shareholder meetings, the key powers of the shareholders meetings and the shareholder rights of each of the MIS EU Subsidiaries are provided for in applicable national law and the constitutional documents of the relevant entity.

MOODY'S
INVESTORS SERVICE