



# European Union Transparency Report

ISSUED IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2017

# Moody's Investors Service ("MIS") European Union Transparency Report

Provided in Accordance with Article 12 and 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 2017<sup>1</sup>

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1. This report was prepared for the year ended 2017. The effective date of this Transparency Report is 31 March 2018.

# Contents

<b>I. Introduction from Monica Merli, Regional Head of Moody's Investors Service for Europe, the Middle East and Africa .....</b>	<b>4</b>
A. Who We Are.....	5
B. How We Determine Ratings.....	5
C. Key Attributes of MIS's Ratings.....	6
D. Our Commitment to Sustainable European Capital Markets.....	6
<b>II. Legal Structure and Ownership .....</b>	<b>8</b>
<b>III. Internal Control Mechanisms Ensuring the Quality of MIS's Credit Rating Activities .....</b>	<b>9</b>
(i) Governance .....	9
(ii) Credit Strategy and Standards ("CSS").....	9
(iii) MIS Compliance Department .....	10
(iv) Internal Audit .....	10
(v) Enterprise Risk Management.....	10
(vi) Codes of Conduct .....	10
(vii) Policies and Procedures .....	10
(viii) Management of Conflicts of Interest.....	10
(ix) Rating Committees.....	11
(x) Methodologies.....	11
(xi) Surveillance.....	11
(xii) Credit Ratings Performance.....	11
<b>IV. Allocation of Staff in Each MIS EU Subsidiary.....</b>	<b>12</b>
<b>V. MIS's Record-Keeping Policy .....</b>	<b>16</b>

<b>VI. Internal Audit Review of MIS's Compliance Department .....</b>	<b>17</b>
<b>VII. MIS's Management and Analyst Rotation Policy .....</b>	<b>18</b>
(i) MIS's Management .....	18
(ii) MIS's Policy for Analyst Rotation .....	19
<b>VIII. Revenue of Each MIS EU Subsidiary .....</b>	<b>20</b>
<b>IX. Governance Statement .....</b>	<b>24</b>
9.1. Supervisory Bodies – Structure and Members .....	24
(i) Supervisory Bodies' Composition.....	24
(ii) Expertise.....	24
(iii) Independence .....	24
(iv) Term of Appointment .....	25
(v) Time Commitment and Compensation.....	25
9.2. Supervisory Bodies – Role and Responsibilities.....	25
(i) Supervisory Bodies' Remit .....	25
(ii) Role of the Independent Members .....	25
9.3. Supervisory Bodies – Proceedings.....	25
9.4. Exempt Entities Under the Regulation .....	25
9.5. Internal Controls, Compliance Function, Review Function and Conflict Management	26
9.6. MCO Audit Committee.....	26
(i) Audit Function.....	26
(ii) Purpose .....	26
(iii) Membership and Meetings .....	27
9.7. Share Ownership, Amendments to Constitutional Documents, Board Appointments and Powers, Shareholder Meetings .....	27

# I. Introduction from Monica Merli, Regional Head of Moody's Investors Service for Europe, the Middle East and Africa

In this section we describe who we are and what we do.

Understanding credit risk is essential to understanding Moody's Investors Service ("MIS"). We define credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. This risk is inherent in bank loans, fixed-income securities and other financial products that are amongst the building blocks of the world's capital markets. In addition to traditional bank loan markets, debt capital markets are a powerful mechanism for channelling funds into companies preparing to expand and for governments that intend to fund a variety of projects, including infrastructure projects.

Assessing the credit risk in these loans and instruments is what MIS does.

Credit ratings and research help investors analyse the credit risks associated with fixed-income securities and other financial obligations. By providing predictive and independent assessments of their credit risk, our ratings and research contribute to the funding of the economy.

MIS analyses available information to assess the credit risk in an accessible and digestible form for use by market professionals. We have developed a rating system that rank-orders our view of the relative credit risk of the issuers and financial obligations we rate. This rating system communicates an informed opinion of how issuers or financial obligations across all geographies and asset classes in a given rating category will perform over time relative to other issuers and obligations in higher or lower rating categories.

In so doing, credit ratings have standardised the language of credit by establishing common points of reference that can be compared across markets, industries and geographies. This comparability is especially important as capital markets have become increasingly global and interconnected and investors are faced with an extensive, and often bewildering, choice of investment opportunities.

Credit ratings therefore provide a commonly understood measure of credit risk that helps issuers, investment managers, other financial market professionals and commentators communicate with one another. This, in turn, promotes dialogue, debate and more informed decision making amongst market participants. MIS's ratings and in-depth research services provide a sound basis for helping to understand and manage credit risk in the context of present – and future – market realities.

Our success depends on the value we provide in the wider marketplace. In order to build and maintain that value, we go to great lengths to ensure that our ratings are predictive, stable and comparable across asset classes and regions. We do this by operating in a thoughtful, deliberate and truly global manner.

The information below provides further insight into our operations.

## A. Who We Are

MIS's company mission is "to be the world's most respected authority serving credit and risk-sensitive markets." This requires that we have an analytical, data-driven culture that rewards intellectual rigour and innovative thinking.

Founded more than 100 years ago, it all began with the publishing of Moody's Manual of Industrial and Miscellaneous Securities, by John Moody & Company in 1900. John Moody created the manual based on his assessment of the market's needs at the time. Now, the firm's ratings and analyses, globally, track debt covering more than 120 countries, approximately 11,700 corporate issuers, 17,700 public finance issuers, and currently monitors ratings on approximately 59,000 structured finance obligations.

## B. How We Determine Ratings

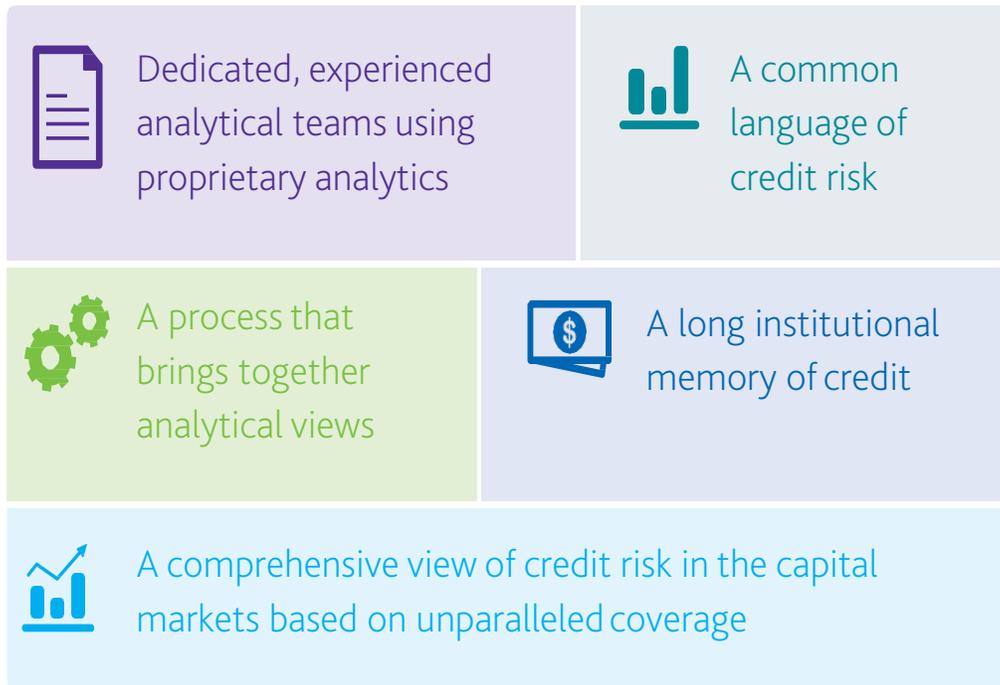
MIS's credit ratings are determined by rating committees in which methodologies, not formulae, provide a framework for group decision making. Our methodologies, which are publicly available, set out the key analytical factors that we believe are the most important determinants for generating predictive credit ratings. Below, we describe a typical rating process:



### C. Key Attributes of MIS's Ratings

MIS's credit ratings are intended to augment – not replace – the independent credit analysis that sophisticated investors and other market participants conduct for portfolio management, capital allocation and other purposes.

#### KEY ATTRIBUTES OF MIS'S RATINGS



### D. Our Commitment to Sustainable European Capital Markets

We have welcomed the Capital Markets Union<sup>2</sup> initiative and the focus placed by the European Commission on the development of the capital markets through practical proposals. Capital markets can foster growth in the EU by opening up a more diverse range of funding options, providing additional capacity and giving access to investors with appetite for higher risk and longer duration.

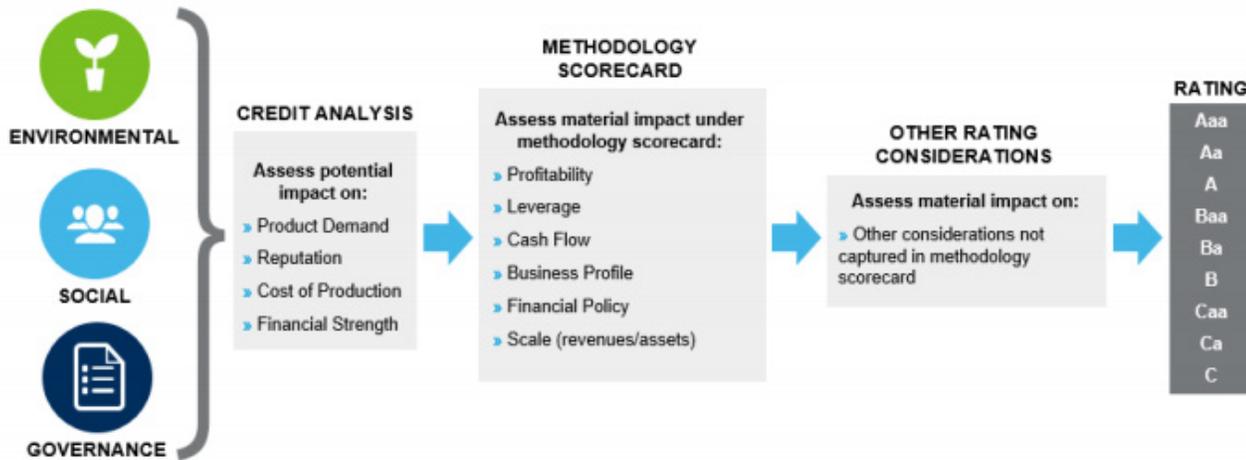
Further, we support the Commission's focus on incorporating Environmental, Social and Governance ("ESG") factors into the financial system. Our credit ratings seek to incorporate a forward-looking view of all factors that can materially impact the credit quality of a given sector or debt issuer, including those related to ESG.

In our analysis, we identify and assess the credit risks arising from ESG considerations either today or in the future, any mitigating and/or adaptive behaviour undertaken by related issuers and, in some instances, the ESG trends that may present credit-positive outcomes. For instance, for a non-financial corporate, we seek to assess how ESG issues influence drivers of credit quality, such as demand for its products, its reputation or its costs of production.

2. [https://ec.europa.eu/info/business-economy-euro/growth-and-investment/capital-markets-union\\_en](https://ec.europa.eu/info/business-economy-euro/growth-and-investment/capital-markets-union_en)

For sovereigns, meanwhile, we look at how ESG-related considerations – for example, country competitiveness, control of corruption, rule of law or physical climate change – affect government creditworthiness.

**Illustrative example of how ESG considerations are an important component of our corporate credit analysis**



While MIS has always taken ESG factors into consideration during its holistic assessment of credit risk, we have been working to make the process more transparent. For example, in 2015, when we created a heat map assessing the impact of environmental risks across 86 sectors.

When it comes to climate change, it is important to note that our ratings do not assess how environmentally friendly an issuer is; they assess how material environmental factors are to its credit risk. We attempt to incorporate these risks with the most forward-looking view that visibility permits.

In October 2017, MIS published a document detailing its approach to assessing ESG in credit analysis. The following month, we announced the establishment of a specialised team dedicated to focus on ESG in credit ratings and other initiatives such as Green Bond Assessments. The expanded ESG team was created to advance the transparency around how ESG risk considerations are incorporated into our credit analysis. The ESG team will initially focus its effort on a series of research that assesses the credit impact of carbon transition for the most exposed sectors, including utilities, oil & gas, automobiles, steel, and metals & mining. The firm has more than 60 analysts across rating groups globally that support its ESG initiatives.

This is an example of how MIS actively contributes to the development of robust and sustainable capital markets that will fund growth in Europe.

## II. Legal Structure and Ownership

The entities to which the Regulation is applicable (the "MIS EU Subsidiaries" and each an "MIS EU Subsidiary") are as follows:

- » Moody's Investors Service Ltd.<sup>3</sup>;
- » Moody's Investors Service EMEA Ltd.<sup>4</sup>;
- » Moody's Deutschland GmbH<sup>5</sup>;
- » Moody's France SAS;
- » Moody's Investors Service España S.A.;
- » Moody's Italia S.r.l.; and
- » Moody's Investors Service Cyprus Ltd.

Each MIS EU Subsidiary is a wholly-owned, indirect subsidiary company of Moody's Corporation ("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.

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3. Including its branches: Moody's Investors Service Ltd., Russian Branch; Moody's Investors Service Limited (spółka z ograniczoną odpowiedzialnością) oddział w Polsce (Poland); and Moody's Investors Service Nordic Filial (Sweden). Moody's Investors Service Ltd., organizační složka (Czech Republic) was deregistered on 31 August 2017.

4. Including its branches: Moody's Investors Service EMEA Ltd, odštěpný závod (Czech Republic) and Moody's Investors Service EMEA Limited France Branch which was established on 7 March 2017. Moody's Public Sector Europe is the trading name of Moody's Investors Service EMEA Ltd.

5. Including its branch: Moody's Deutschland GmbH, UK Branch which was registered on 11 December 2017.

## III. Internal Control Mechanisms Ensuring the Quality of MIS's Credit Rating Activities

MIS's approach to maintaining key internal control mechanisms 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 supervisory bodies, in accordance with the Regulation, with independent members in Moody's Investors Service Ltd., Moody's Investors Service EMEA Ltd., Moody's Deutschland GmbH, and Moody's France SAS.

### (ii) Credit Strategy and Standards ("CSS")

#### CSS Structure

CSS comprises several functions: the Methodology Development Group ("MDG"), which includes the Methodology Framework Group and the Default & Ratings Analytics; the Methodology Review Group ("MRG") which includes the Model Specifications Specialists Team; the Ratings and Process Oversight Group ("RPO"); the Analytics and Technology Solutions group ("ATS"), which integrates MIS technology, quantitative and project capabilities and Strategy & Research ("S&R"). Each function reports to the MIS Chief Credit Officer.

#### Methodology Development Group

MDG is responsible for methodology development and delivery across MIS. The Methodology Framework Group within MDG provides analytical resources and leadership, manages a robust end-to-end process and has direct accountability for methodology development. MDG also includes the Default & Ratings Analytics team, which generates default, transition and loss severity research, and rating performance measurement statistics.

#### Methodology Review Group

The MRG's four main responsibilities are to (1) approve new and revised credit rating methodologies, acting through the Methodology Review Committee, (2) review specifications of MIS credit rating models for consistency with published methodologies, (3) review the appropriateness of existing methodologies on an annual basis, and (4) review credit rating actions, on a sampled basis, to evaluate the application of published methodologies.

#### Ratings & Process Oversight Group

Group Credit Officers within RPO enhance ratings quality and promote cross-sector consistency in the application of methodologies by contributing a broader view than that available to individual business lines and rating teams. In support of these objectives, RPO provides guidance on the credit implications of the global macro-economic environment and its Credit Officers provide guidance to analysts on complex credit situations, participate and vote in rating committees, and lead credit portfolio reviews.

The policy development and support staff within RPO are responsible for the development and maintenance of the RPO's library of documents, including policies, procedures, guidance and best practices, and the implementation of key credit rating processes.

#### Rating Practices Committee

The Rating Practices Committee is comprised of members of CSS, senior managers of rating groups, and is chaired by the Managing Director, Rating Process Oversight. The Committee is responsible for setting overall best practices that govern MIS's credit rating process.

#### Analytic and Technology Solutions Group

ATS is responsible for developing the quantitative models and analytical tools used in the rating process and across MIS, as well as MIS technology innovation activities, including advanced capabilities in machine learning and artificial intelligence.

## Strategy & Research Group

S&R is responsible for proactively identifying and prioritizing emerging strategic credit issues, defining a cross line of business strategic viewpoint, and generating macro-financial and thematic research. S&R gathers, analyses, and synthesizes external and internal data sources to identify key credit issues and guide credit strategy. S&R also assesses and develops new analytical approaches and tools to evaluate credit risk.

### (iii) MIS Compliance Department

The MIS Compliance Department is part of the wider Legal, Compliance, and Government and Public Affairs Group, which reports to MCO's Global General Counsel and is independent of rating groups. It is responsible for assessing MIS's adherence to regional and local laws and regulations as well as codes of conduct, policies and procedures. 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 (or equivalent bodies under national law) 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 audits 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. The Board of Directors of MCO has established an Audit Committee (the "MCO Audit Committee") to whom the Internal Audit function reports.

Internal Audit's coverage of the ratings process is assessed through a combination of three types of audits: (1) rating compliance audits; (2) general office reviews of MCO's international locations; and (3) corporate functions such as Compliance and Credit Strategy and Standards.

### (v) Enterprise Risk Management

Although it is not a requirement of the Regulation, MCO has established an Enterprise Risk Management function with a global remit, including the MIS EU Subsidiaries. Its remit includes identifying principal operational risks across MIS's business.

### (vi) Codes of Conduct

MIS operates under both the MCO "Code of Business Conduct", which sets out guiding principles to which each employee and corporate director is expected to adhere, and the "MIS Code of Professional Conduct" which establishes guiding principles applicable to MIS employees.

### (vii) Policies and Procedures

The principles established by the codes of conduct described above are elaborated upon in MIS's policies and procedures. 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. These 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

While 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 specific list of its potential conflicts for the EU<sup>6</sup> and has adopted policies and procedures to prevent, identify and manage them. In particular MIS has put in place the following:

- » MIS's codes of conduct establish both high-level principles addressing potential conflicts of interest and high-level standards on the handling of confidential information. Pursuant to MIS's policies, procedures and guidelines, employees are subject to restrictions

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6. See Moody's Investors Service Statement of Potential Conflicts of Interest in the European Union on [www.moody.com](http://www.moody.com).

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.

- » MIS is operationally and legally segregated from MCO's non-ratings businesses.
- » As an institution, MIS does not act as a principal or make markets in securities.
- » MIS's Commercial Group, which is responsible for all commercial relationships with issuers, is operationally segregated from any analytical rating group and any involvement in credit rating activities. Analysts are prohibited from participating in fee discussions with issuers or their agents.
- » Credit ratings are determined by rating committees.
- » 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 interacts.
- » MIS applies a mechanism for the gradual rotation of relevant analytic staff to protect their independence.<sup>7</sup>
- » 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 to comply with these policies and procedures to the extent relevant. The MIS Compliance Department monitors employee conduct regarding potential conflicts of interest.

### **(ix) Rating Committees**

Credit ratings are determined by rating committees pursuant to a majority vote of the rating committee's 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, procedures and guidelines governing the preparation for, convening and conducting rating committees. Among other things, those policies, procedures and guidelines cover the composition of rating committees, the type, quality and format of information that needs to be provided, voting procedures, management of conflicts of interest and maintenance of confidentiality.

### **(x) Methodologies**

MIS's credit rating methodologies are publicly and freely available on its website. They are typically global in nature and tailored to take account of structural or regional variations. New credit rating methodologies or changes to existing credit rating methodologies are approved by the MRG as necessary. They are subject to ongoing refinement and are reviewed at least annually. MIS's credit rating methodologies represent the core of MIS's analytical approach in a given sector and are applied consistently in the credit rating process.

### **(xi) Surveillance**

Once a credit rating is published, MIS monitors the credit rating on an ongoing basis and reviews it at least annually, and semi-annually for sovereign ratings, 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 the surveillance activity is performed primarily by separate teams of surveillance analysts.

### **(xii) Credit Ratings Performance**

MIS periodically analyses the performance of its credit ratings to assess their consistency and quality. MIS publishes information including historical default, recovery 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. MIS's public credit ratings are publicly and freely available on its website, [www.moodys.com](http://www.moodys.com), enabling third parties to assess their performance.

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7. See section VII below for further information on MIS's approach to analyst rotation.

## IV. Allocation of Staff in Each MIS EU Subsidiary

Surveillance of credit ratings, apart from SFG, typically is conducted by the same analytical team that is responsible for the initial credit rating. MIS allocates staff to a new credit rating but does not allocate staff separately to credit rating reviews.

The data presented in this section<sup>8</sup> relates to the allocation of staff in each of the MIS EU Subsidiaries under the following categories outlined below.<sup>9</sup>

- » Both New Credit Ratings and Credit Rating Reviews: The data presented<sup>10</sup> does not distinguish between staff allocation for new credit ratings and credit rating reviews. However, surveillance staff in SFG typically are segregated from analytical staff that are responsible for the initial credit rating. Consequently, within SFG, staff may be allocated separately to new credit ratings and to 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 III above, MIS's credit rating methodologies, where feasible and appropriate, are typically global in nature and may be tailored to take account of regional or national considerations. Although Credit Strategy and Standards operates globally, in the EU and nationally across rating groups as set out in section III (ii) above, only employees of the Credit Strategy and Standards in the EU are identified below.
- » Model Appraisal: Within MIS, the Model Verification team, which is part of Credit Strategy and Standards, is tasked with verifying models that are used globally. Staff are located in the United States of America and India 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 the analysts to allocate greater time to core analytical responsibilities. These include staff in the Global Middle Office, and other support or administrative functions 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/or members of its Administrative or Supervisory Board.<sup>11</sup>

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8. For the purposes of this Transparency Report, all data and statistics cited below are provided as of 31 December 2017

9. 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 outlined only includes staff based in each of the relevant MIS EU subsidiaries.

10. Staff identified may participate in credit rating activities as well as non-credit rating activities of MIS (as defined in section VIII below).

11. 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	CFG	FIG	PPIF	RRS	SFG	SOV	ALL OTHERS	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews	48	31	26	109	5	9	-	228
New Credit Ratings Only	-	-	-	-	42	-	-	42
Credit Rating Reviews Only	-	-	-	-	30	-	-	30
Methodology Appraisal	-	-	-	-	-	-	6	6
Credit Rating Support Staff	7	4	5	1	6	-	128	151
Senior Management/Board Member	-	-	-	-	-	-	8	8
<b>Total</b>	<b>55</b>	<b>35</b>	<b>31</b>	<b>110</b>	<b>83</b>	<b>9</b>	<b>142</b>	<b>465</b>

MOODY'S INVESTORS SERVICE EMEA LTD	CFG	FIG	PPIF	RRS	SFG	SOV	ALL OTHERS	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews	-	-	9	11	-	-	-	20
New Credit Ratings Only	-	-	-	-	-	-	-	-
Credit Rating Reviews Only	-	-	-	-	-	-	-	-
Methodology Appraisal	-	-	-	-	-	-	-	-
Credit Rating Support Staff	-	-	-	-	-	-	-	-
Senior Management/Board Member	-	-	-	-	-	-	7	7
<b>Total</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>27</b>

MOODY'S DEUTSCHLAND GMBH	CFG	FIG	PPIF	RRS	SFG	SOV	ALL OTHERS	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews	12	9	2	19	2	5	-	49
New Credit Ratings Only	-	-	-	-	15	-	-	15
Credit Rating Reviews Only	-	-	-	-	8	-	-	8
Methodology Appraisal	-	-	-	-	-	-	-	-
Credit Rating Support Staff	-	-	-	-	-	-	24	24
Senior Management/Board Member	-	-	-	-	-	-	9	9
<b>Total</b>	<b>12</b>	<b>9</b>	<b>2</b>	<b>19</b>	<b>25</b>	<b>5</b>	<b>33</b>	<b>105</b>

MOODY'S FRANCE SAS	CFG	FIG	PPIF	RRS	SFG	SOV	ALL OTHERS	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews	6	8	-	5	-	-	-	19
New Credit Ratings Only	-	-	-	-	3	-	-	3
Credit Rating Reviews Only	-	-	-	-	2	-	-	2
Methodology Appraisal	-	-	-	-	-	-	1	1
Credit Rating Support Staff	-	-	-	-	1	-	1	2
Senior Management/Board Member	-	-	-	-	-	-	9	9
<b>Total</b>	<b>6</b>	<b>8</b>	<b>-</b>	<b>5</b>	<b>6</b>	<b>-</b>	<b>11</b>	<b>36</b>

MOODY'S INVESTORS SERVICE CYPRUS LTD	CFG	FIG	PPIF	RRS	SFG	SOV	ALL OTHERS	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews	-	5	-	8	-	-	-	13
New Credit Ratings Only	-	-	-	-	-	-	-	-
Credit Rating Reviews Only	-	-	-	-	-	-	-	-
Methodology Appraisal	-	-	-	-	-	-	-	-
Credit Rating Support Staff	-	-	-	-	-	-	1	1
Senior Management/Board Member	-	-	-	-	-	-	3	3
<b>Total</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>17</b>

MOODY'S ITALIA S.R.L.	CFG	FIG	PPIF	RRS	SFG	SOV	ALL OTHERS	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews	2	-	2	2	-	-	-	6
New Credit Ratings Only	-	-	-	-	2	-	-	2
Credit Rating Reviews Only	-	-	-	-	1	-	-	1
Methodology Appraisal	-	-	-	-	-	-	-	-
Credit Rating Support Staff	-	-	-	-	-	-	2	2
Senior Management/Board Member	-	-	-	-	-	-	2	2
<b>Total</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>-</b>	<b>4</b>	<b>13</b>

MOODY'S INVESTORS SERVICE ESPAÑA, SA	CFG	FIG	PPIF	RRS	SFG	SOV	ALL OTHERS	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews	3	4	2	6	1	-	-	16
New Credit Ratings Only	-	-	-	-	9	-	-	9
Credit Rating Reviews Only	-	-	-	-	4	-	-	4
Methodology Appraisal	-	-	-	-	-	-	-	-
Credit Rating Support Staff	-	-	-	-	-	-	-	-
Senior Management/Board Member	-	-	-	-	-	-	2	2
<b>Total</b>	<b>3</b>	<b>4</b>	<b>2</b>	<b>6</b>	<b>14</b>	<b>-</b>	<b>2</b>	<b>31</b>
<b>GRAND TOTAL</b>	<b>78</b>	<b>61</b>	<b>46</b>	<b>161</b>	<b>131</b>	<b>14</b>	<b>203</b>	<b>694</b>

## V. MIS's Record-Keeping Policy

MIS EU Subsidiaries adhere to the Policy and Procedures for Record Retention for Rating Services. These documents, along with the Appendix of Rating Services Record Retention Schedules, provide the fundamental principles of MIS's record retention policy, including:

- » the type of documents subject to the policy,
- » categories of document types for purposes of retention obligations,
- » retention periods for records relating to the credit rating services, in accordance with applicable law and regulation in the jurisdictions in which MIS operates,
- » instructions on the repositories used for record retention, and
- » specifying the parties responsible for retention and deletion of records related to the credit rating services.

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

Rating applications and other contractual documents with issuers, along with exchanges with issuers related to commercial and fee information are handled by the Commercial Group, which is segregated from the analytical teams. For credit rating services covered by the policy, 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 function completed the annual audit of the Compliance function, which supports MIS, and issued the report in October 2017.<sup>12</sup> The audit focused on processes and controls to support employee compliance with regulatory requirements and an assessment of the objectivity of the Compliance function. The audit results indicate that the processes and controls reviewed are satisfactory to support compliance with regulatory requirements and confirmed that the Compliance function operates with objectivity.

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12. The report covered the period from January 2017 through August 2017.

## VII. MIS's Management and Analyst Rotation Policy

### (i) MIS's Management

MIS's management structure is established on a global, regional and national basis across jurisdictions. MIS's organisational structure and decision making procedures clearly specify reporting lines and allocate functions and responsibilities.

#### MIS's BOARD OF DIRECTORS

The Board of Directors of Moody's Investors Service, Inc. was reconstituted on 15 June 2015. The Board has general oversight over MIS's business, including overseeing MIS's compliance and governance processes and the performance of Credit Strategy and Standards, and has various responsibilities specifically detailed in US law and regulation.

#### GLOBAL MANAGEMENT

Henry A. McKinnell, Jr. is the Chairman of the Board of Directors of MCO. Raymond W. McDaniel, Jr. is the President and Chief Executive Officer of MCO and is also the Chief Executive Officer of MIS. Mr. McDaniel is based in New York. Pramila Gupta is the Chairperson of the Board of Moody's Investors Service, Inc. and Robert Fauber is the President of MIS.

#### REGIONAL MANAGEMENT

MIS's management group is complemented by three regional managers, one for each of EMEA, Americas and Asia/Pacific. Monica Merli is the Regional Head of MIS EMEA and is based in London. The Regional Head of MIS EMEA is critical for maintaining information flow between the MIS EU Subsidiaries and provides centralised oversight of the group of MIS EU Subsidiaries. The Regional 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 any significant issues that arise. MIS's regional management reporting structure in the EU is further enhanced by MIS's corporate governance. In her capacity as Regional Head of MIS EMEA, Monica Merli is a member of the Board of Directors (or equivalent body under national law) and/or the supervisory bodies of each MIS EU Subsidiary. 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 Regional Head of MIS EMEA.

#### NATIONAL MANAGEMENT

Each MIS EU Subsidiary is managed on a day-to-day basis by a country manager who reports in this capacity to the manager of country managers who in turn reports to the Regional 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 Compliance Department and Credit Strategy and Standards, or by other MIS entities via outsourcing arrangements.

#### RATING GROUP MANAGEMENT

MIS's credit rating groups in Ratings and Research (R&R) are also organised with regional and global reporting lines that operate across five rating groups: 1) sovereign, 2) public, project and infrastructure finance, 3) corporate finance, 4) financial institutions and 5) structured finance. Within R&R, the global manager for each rating group reports to the Managing Director Global R&R, who, in turn, reports to the President of MIS. Generally, the global manager for each rating group is supported by a corresponding business manager in each of MIS's three main regions of operation (EMEA, Americas, and Asia/Pacific). Another series of managers responsible for overseeing individual rating groups that may be geographically dispersed, generally report to the relevant global or regional rating group manager. This cross border reporting structure results in an escalation and resolution of any rating group issue on an international or regional basis, irrespective of the country in which the issue may have arisen. Similarly, to the extent possible, decisions made relating to a particular rating group are implemented by the relevant management across jurisdictions or regions. Please see section IX of this Transparency Report for further information on MIS's management and corporate governance in each of the MIS EU Subsidiaries.

#### CREDIT STRATEGY AND STANDARDS ("CSS")

Within MIS, CSS is tasked with, among other things, promoting consistency and quality in credit ratings globally. Each of the CSS functions described in section III above is managed by a Global Managing Director reporting to the MIS Chief Credit Officer. Because credit ratings are issued across sectors and regions, CSS also operates globally and regionally across sectors or rating groups. Consequently, members of CSS focus on credit rating methodologies and credit ratings in a particular sector or a broad rating group, irrespective of their geographical location or the MIS entity responsible for issuing the credit rating under the Regulation. CSS is

independent of MIS's rating groups. The Methodology Review Group provides reports to the Boards of Directors (or equivalent bodies under national law) and/or the supervisory bodies of the MIS EU Subsidiaries. This structure results in an appropriate and consistent cross-jurisdictional implementation of any enhancements to best practices or changes to MIS's methodological approach.

#### **MIS COMPLIANCE DEPARTMENT**

A Senior Compliance Officer serves as Head of Compliance (each a "Designated Compliance Officer" or "DCO") in each of MIS's three main regions of operation: EMEA, Americas, and Asia/Pacific. The MIS Compliance Department in the EU is an integral part of the global MIS Compliance Department and is independent of the business management. Compliance Officers in the EU report directly to the DCO of EMEA who, in turn reports to MCO's Deputy Chief Compliance Officer/MD – MCO Global Compliance. The global MIS Compliance Department oversees MIS's global policies and procedures and adherence by MIS to the Regulation. In accordance with the Regulation, Boards of Directors (or equivalent bodies under national law) and/or the supervisory bodies 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) MIS's Policy for Analyst Rotation**

MIS's approach to the rotation of analysts in the EU is set out in the Policy for Analyst Rotation (EU) (the "Analyst Rotation Policy"). The purpose of the Analyst Rotation Policy is to set out a rotation mechanism to provide a gradual change in lead analysts and, for sovereign ratings and unsolicited ratings, rating analysts and persons approving credit ratings. The Analyst Rotation Policy<sup>13</sup> applies to all MIS EU Subsidiaries, except for those entities which are granted an exemption from its full application under the Regulation.<sup>14</sup> Under the Analyst Rotation Policy, MIS will rotate lead analysts every four years, and for sovereign ratings and unsolicited ratings, rating analysts every five years and persons approving credit ratings every seven years. When rotated, analysts are subject to a minimum two year "cooling off" period, in which they are prohibited from engaging in credit rating activities with respect to the applicable issuer and/or its related third party.

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13 ESMA has published an update to its Questions and Answers on the application of the CRA Regulation with respect to analyst rotation, which will, in the future, result in changes to MIS's approach to analyst rotation.

14. Moody's Investors Service España S.A., and Moody's Investors Service Cyprus Ltd have been granted exemptions from the requirements of the Analyst Rotation Policy.

## VIII. Revenue of Each MIS EU Subsidiary

The revenue<sup>15</sup> 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 2017. Defined terms used in this section have the following meanings:

**“Credit Rating Services”**: Products and services that are offered by MIS, that are derived from the credit rating process and 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”**: Ancillary and other permissible services.

**“Ancillary Services”**: Those products and services that may be offered by MIS, that are not credit rating services, and that include 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”**: Products and services that MIS may offer that are neither Credit Rating Services nor Ancillary Services and that are identified by MIS in MIS’s Rating Symbols and Definitions document that is publicly available on MIS’s website.

<b>MOODY’S INVESTORS SERVICE LTD.</b> <sup>16</sup>	<b>€ MILLION</b>
<b>Credit Rating Services</b>	276.4
<b>Non-Credit Rating Services</b>	29.9
<b>Total Revenue</b>	<b>306.3</b>

<b>ASSET CLASS</b>	<b>€ MILLION</b>
<b>CFG</b>	145.2
<b>FIG</b>	58.0
<b>PPIF</b>	39.9
<b>SFG</b>	57.8
<b>SOV</b>	5.4
<b>Total</b>	<b>306.3</b>

15. Total revenue is based on invoices issued, net of credit notes, for the relevant MIS EU Subsidiary. In general, there is a high correlation between invoiced amounts and revenues in any particular year.

16. Includes Czech, Polish, Swedish and Russian branches.

<b>MOODY'S DEUTSCHLAND GMBH</b>	<b>€ MILLION</b>
<b>Credit Rating Services</b>	74.2
<b>Non-Credit Rating Services</b>	3.7
<b>Total Revenue</b>	77.9

<b>ASSET CLASS</b>	<b>€ MILLION</b>
<b>CFG</b>	36.8
<b>FIG</b>	13.7
<b>PPIF</b>	0.5
<b>SFG</b>	16.6
<b>SOV</b>	10.3
<b>Total</b>	77.9

<b>MOODY'S FRANCE SAS</b>	<b>€ MILLION</b>
<b>Credit Rating Services</b>	28.2
<b>Non-Credit Rating Services</b>	4.8
<b>Total Revenue</b>	33.0

<b>ASSET CLASS</b>	<b>€ MILLION</b>
<b>CFG</b>	12.5
<b>FIG</b>	16.1
<b>PPIF</b>	0.0
<b>SFG</b>	4.4
<b>SOV</b>	0.0
<b>Total</b>	33.0

<b>MOODY'S INVESTORS SERVICE ESPAÑA S.A.</b>	<b>€ MILLION</b>
<b>Credit Rating Services</b>	30.1
<b>Non-Credit Rating Services</b>	0.8
<b>Total Revenue</b>	<b>30.9</b>

<b>ASSET CLASS</b>	<b>€ MILLION</b>
<b>CFG</b>	9.2
<b>FIG</b>	5.4
<b>PPIF</b>	0.0
<b>SFG</b>	15.0
<b>SOV</b>	1.3
<b>Total</b>	<b>30.9</b>

<b>MOODY'S ITALIA S.R.L.</b>	<b>€ MILLION</b>
<b>Credit Rating Services</b>	9.7
<b>Non-Credit Rating Services</b>	1.2
<b>Total Revenue</b>	<b>10.9</b>

<b>ASSET CLASS</b>	<b>€ MILLION</b>
<b>CFG</b>	8.2
<b>FIG</b>	0.0
<b>PPIF</b>	0.0
<b>SFG</b>	2.5
<b>SOV</b>	0.2
<b>Total</b>	<b>10.9</b>

<b>MOODY'S INVESTORS SERVICE CYPRUS LTD.</b>	<b>€ MILLION</b>
<b>Credit Rating Services</b>	7.5
<b>Non-Credit Rating Services</b>	0.3
<b>Total Revenue</b>	<b>7.8</b>

<b>ASSET CLASS</b>	<b>€ MILLION</b>
<b>CFG</b>	0.0
<b>FIG</b>	7.8
<b>PPIF</b>	0.0
<b>SFG</b>	0.0
<b>SOV</b>	0.0
<b>Total</b>	<b>7.8</b>

<b>MOODY'S INVESTORS SERVICE EMEA LTD.<sup>17</sup></b>	<b>€ MILLION</b>
<b>Credit Rating Services</b>	5.9
<b>Non-Credit Rating Services</b>	0.5
<b>Total Revenue</b>	<b>6.4</b>

<b>ASSET CLASS</b>	<b>€ MILLION</b>
<b>CFG</b>	0.0
<b>FIG</b>	0.0
<b>PPIF</b>	0.0
<b>SFG</b>	0.0
<b>SOV</b>	6.4
<b>Total</b>	<b>6.4</b>

17. Includes Czech and French branch.

## IX. Governance Statement

As a NYSE-listed company, MCO complies with the NYSE's Corporate Governance Listing Standards. Certain MIS EU Subsidiaries have been granted approval for exemptions from particular corporate governance requirements of the Regulation, including the presence of independent board members (as outlined below).

### 9.1. Supervisory Bodies – Structure and Members

MIS has appropriate supervisory bodies for each of Moody's Investors Service Ltd., Moody's Investors Service EMEA Ltd., Moody's Deutschland GmbH and Moody's France SAS (together the "Larger Entities"). An enhanced Unitary Board is in place for Moody's Investors Service Ltd. and Moody's Investors Service EMEA Ltd., an Advisory Board (Beirat) is in place for Moody's Deutschland GmbH and a Supervisory Board is in place for Moody's France SAS.

#### (I) SUPERVISORY BODIES' COMPOSITION

The composition of the supervisory bodies is as follows:

##### » Moody's Investors Service Ltd.

Five MIS members: Blair Worrall, Michel Madelain, Robert Fauber, Monica Merli, Nigel Phipps and three independent members: Alain Dromer, Jan Pethick and Rudolf Ferscha.

##### » Moody's Investors Service EMEA Ltd.

Four MIS members: Michel Madelain, Robert Fauber, Monica Merli, Nigel Phipps and three independent members: Alain Dromer, Jan Pethick and Rudolf Ferscha.

##### » Moody's Deutschland GmbH

Four MIS members: Blair Worrall, Michel Madelain, Nigel Phipps, Robert Fauber and three independent members: Alain Dromer, Jan Pethick and Rudolf Ferscha.

##### » Moody's France SAS

Four MIS members: Blair Worrall, Michel Madelain, Nigel Phipps, Robert Fauber and three independent members: Alain Dromer, Jan Pethick and Rudolf Ferscha.

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

Monica Merli (Geschäftsführerin) and Jens Schmidt-Buergel (Geschäftsführer).

##### » Moody's France SAS

Monica Merli (President) and Jean Vaucenat (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 judgment. In addition, independent members are not involved in credit rating activities.

#### **(IV) TERM OF APPOINTMENT**

Each of the supervisory bodies' independent members has 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 are 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 of any directorships, 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. 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 oversight of the following:

- » 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;
- » 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 Methodology Review Group within Credit Strategy and Standards); 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 policies 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 Methodology Review Group);
- » provide opinions to the relevant supervisory body; and
- » allow these opinions to be made available to ESMA 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 are required to 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. In 2017, the supervisory bodies met at least four times. 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 conflicts of interest.

### **9.4. Exempt Entities Under the Regulation**

In accordance with Article 6(3) of the Regulation, MIS has been granted 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 granted 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.

Under the exemptions granted in respect of point 2 of Section A of Annex I of the Regulation, MIS does not need to comply with the requirement for at least one-third, and not less than two, of the members of the supervisory body to be independent. The Boards of Directors (or equivalent body under national law) 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 Internal Audit function monitors the matters set out in Section 9.2(ii) of this report. In fulfilling these functions, the Head of the Internal Audit function will receive reports prepared by MIS's Compliance Department and Credit Strategy and Standards (including the Methodology Review Group). The Head of the Internal Audit function will prepare reports with respect to internal audit and provide opinions on these matters to the Regional Head of MIS EMEA and the relevant Boards of Directors (or equivalent body under national law) and/or the supervisory bodies.

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

- » **Moody's Investors Service Cyprus Ltd.**  
Monica Merli, Jihad el Nakla and Ioannis Ioannou
- » **Moody's Italia S.r.l.**  
Monica Merli and Marco Borghello
- » **Moody's Investors Service España, S.A.**  
Monica Merli and Timothy Herring

Each Exempt Entity has implemented measures and procedures that achieve 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 Conflict Management**

Please see section III of this Transparency Report for information.

## **9.6. MCO Audit Committee**

### **(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, or 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 MCO's financial statements and the financial information provided to MCO's stockholders and others;
- (b) MCO's compliance with legal and regulatory requirements;
- (c) MCO's internal controls;
- (d) MCO's policies and practices with respect to financial risk assessment and risk management; and
- (e) the audit process, including the qualifications and independence of the principal external auditors, and the performance of independent auditors and the internal audit function.

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 (Schedule 14A) and is responsible for the appointment, compensation, retention and

oversight of the work of MCO's independent auditors. As such, the independent auditors report directly to the MCO Audit Committee.

### (III) MEMBERSHIP AND MEETINGS

The MCO Audit Committee consists of at least three MCO Directors, as appointed by the Board of Directors of MCO upon the recommendation of the Governance & Nominating 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 MCO 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 Head of Internal Audit at least once a quarter and periodically with members of management, including the General Counsel, as the MCO Audit Committee determines appropriate.

### 9.7. Share Ownership, Amendments to Constitutional Documents, Board Appointments and Powers, 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 Report):

» Berkshire Hathaway, Inc.	12.9%
» The Vanguard Group	8.7%
» BlackRock Inc.	5.5%

The articles of association of the MIS EU Subsidiaries may be amended in accordance with applicable national law. The supervisory bodies 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 (or equivalent body under national law) 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 the shareholder meeting, the key powers of the shareholder meeting 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.

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## Moody's Investors Service Ltd

One Canada Square  
Canary Wharf  
London  
E14 5FA