Moody's Investors Service

Report on the Code of Professional Conduct

December 2007

Moody's Investors Service

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I. Introduction and Background

A. Introduction

The Moody's Investors Service ("MIS") *Code of Professional Conduct* (the "Code" or the "MIS Code"), which we first adopted in June 2005, sets forth overall policies through which we seek to further our objective to protect the integrity, objectivity and transparency of our credit rating process. Through the Code, we also seek to ensure that investors and Issuers[1] are treated fairly, to safeguard confidential information produced by MIS or provided to us by Issuers, and to provide disclosure about our rating methodologies, policies, practices and overall track record. We believe these measures will enhance market understanding of, and confidence in, our Credit Ratings.

The MIS Code reflects the principles expressed in the Code of Conduct Fundamentals for Credit Rating Agencies promulgated by the International Organization of Securities Commissions (the "IOSCO Code"). MIS endorses those principles, and we are committed to implementing them through our own Code.

This Report is being issued pursuant to Section 4.2 of the MIS Code. In Section II we explain the substantive changes to our Code, in Section III we describe the enhancements to our methods for implementing the MIS Code and in Section IV we provide the substantive differences between the MIS Code and the IOSCO Code and how the IOSCO Code objectives are otherwise met.

Other background information on our implementation of the MIS Code, including discussion of the policies, procedures and practices that we have in place to promote the above-stated objectives and compliance with the Code, is included in the 2006 Report. The 2006 Report remains available on the *Regulatory Affairs* page of our website, www.moodys.com.

1 Capitalized terms used but not defined in this Report are intended to have the meaning provided in the MIS Code.

B. Background About MIS

MIS is owned by Moody's Corporation ("MCO"), a New York Stock Exchange listed company. MIS is the oldest bond rating agency in the world, having introduced bond ratings in 1909. From its inception, MIS has focused on rating debt instruments and today, MIS publishes opinions on a broad range of credit obligors and credit obligations issued in domestic and international markets, including various corporate and governmental obligations, structured finance securities and commercial paper programs. MIS also publishes investor-oriented credit research, including in-depth research on major debt issuers, industry studies, special comments and credit opinion handbooks.

Our ratings and analysis track debt covering more than 100 sovereign nations, 12,000 corporate Issuers, 29,000 public finance Issuers and 96,000 structured finance obligations. MIS employs approximately 3,000 people worldwide, including more than 1,000 Analysts, and maintains offices in most of the world's major financial centers. Our analytical teams, while situated around the world to account for important national considerations, generally are organized along global business sectors (such as the credit derivatives team and the banking team).

MIS Credit Ratings are opinions of the relative future creditworthiness of entities or of debt obligations, such as bonds, notes and commercial paper. They are forward-looking opinions that address just one characteristic of fixed income securities — the likelihood that debt will be repaid in accordance with the terms of the security. They reflect on both the probability that a debt instrument will default and the amount of loss the debt-holder will incur in the event of default. Our Credit Ratings do not address many other factors in the investment decision process, including price, term, likelihood of prepayment, liquidity risk or relative valuation of particular securities. Moreover, our Credit Ratings are not recommendations to purchase, sell or hold particular securities. Credit Ratings do not comment on the suitability of an investment for any particular investor, and MIS issues its Credit Ratings with the expectation and understanding that each investor will make its own study and evaluation of each security that is under consideration for purchase, holding or sale.

We use globally consistent rating symbols and definitions to communicate our rating opinions, and we have implemented policies and procedures to promote broad consistency in our overall rating methodologies and practices as well as global comparability in our Credit Ratings.[2]

II. Changes to the MIS Code

Over the past year, both IOSCO and the Committee of European Securities Regulators ("CESR") have reviewed how rating agencies have implemented the IOSCO Code and have commented on areas where they believe improvements can be made or where greater transparency would be helpful. In recent months, issues in the credit markets also have prompted substantial regulatory and market focus on the role of rating agencies and the importance of transparency, promoting the independence of the credit rating process and protecting against conflicts of interest. With these considerations in mind, in October 2007, we published an updated version of our Code. The updated Code can be found on the *Regulatory Affairs* page of our website, www.moodys.com.

Our updated Code reflects revisions that are intended to clarify and enhance our policies and to better reflect our business practices. In particular, the revisions reinforce the separation of MIS from other commercial activities of Moody's Corporation, consistent with the business unit reorganization announced by Moody's Corporation in August 2007. (See Section III below for additional information regarding this corporate reorganization.) The revised Code also reflects enhancements to the Company's policy for separating its rating Analysts from fee discussions with Issuers to avoid conflicts of interest.

Specifically, Code Sections 2.5, 2.8 and 2.12 now align with the IOSCO Code. In the paragraphs that follow, we discuss in detail these three Code sections. In addition, we have made certain other changes that are textual or editorial in nature. Such changes are not substantive and, therefore, are not addressed in this Report.

1. Separation of Businesses — Code Section 2.5

The IOSCO Code provides that a Credit Rating Agency ("CRA") "*…should separate, operationally and legally, its credit rating business and CRA analysts from any other businesses … that may present a conflict of interest*" and that "*(t)he CRA should ensure*

2 MIS's global corporate, financial institutions, sovereign and non-US sub-sovereign (collectively, "Fundamental"), and Structured Finance Credit Ratings use the same symbol system and are intended to convey comparable information with respect to the relative risk of expected credit loss. MIS's ratings on public finance securities issued in the US tax-exempt market use the same symbol system but are calibrated to less frequent historical default loss rates and thus are not intended to be compared directly to our other Credit Ratings. See *Special Comment: Moody's US Municipal Bond Rating Scale,* November 2002, which can be found on moodys.com under the title Moody's US Municipal Default Study.

that ancillary business operations which do not necessarily present conflicts of interest with the CRA's rating business have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise."

The IOSCO Code does not define "ancillary business operations" and non-rating businesses, as it is principles-based and encourages rating agencies to implement it in ways that are consistent with their own business models. In its February, 2007 Consultation Report reviewing rating agency implementation of the IOSCO Code, the IOSCO Technical Committee acknowledged that "it is possible that some confusion exists" regarding the definition of an "ancillary" business. The Technical Committee stated that it does not believe that the IOSCO Code should address this, but rather that CRAs should provide their own clarifications.

In response, we have established three defined categories for classifying our products and services — "Credit Rating Services", "Ancillary Services" and "Non-Rating Services" — which are described below. Although these terms had been used in the previous version of the MIS Code, they were not clearly defined. In the revised MIS Code, we have divided the various services provided by MIS and other Moody's entities as falling into one of these three categories, based on the degree to which the service is derived from or related to the Credit Rating process. In particular,

- ***Credit Rating Services*** are those products and services that are derived from the Credit Rating process and include, but are not limited to, the production and sale of Credit Ratings and related research, data products and related analytical tools;
- ***Ancillary Services*** are those products and services provided by MIS that are related to, but not derived from, the Credit Rating process; finally,
- ***Non-Rating Services*** are those products and services that are unrelated to the Credit Rating process.

Regulators and market participants also have indicated a desire for us to communicate more clearly our approach to managing potential conflicts related to the various products and services offered by MIS and other MCO entities. In response, we have provided further detail about conflict management procedures in revised Code Section 2.5, which may include in some instances legal and operational separations.

Thus, the revised Code clearly identifies for regulators and market participants those services provided by MIS and how we prevent conflicts of interest in providing those services. Moreover, the revised Code identifies those services that are not provided by MIS, but rather are provided by a separate MCO entity.

Code Section 2.5

June 2005 MIS Code	October 2007 MIS Code
Moody's will separate its Credit Rating business and Analysts from other businesses that may reasonably present a conflict of interest, as described in Moody's Policy with Respect to Non-Rating Services. Rating committee members may neither sell nor provide such services to rated Issuers. Moody's will ensure that any existing or future ancillary business operations that do not necessarily present conflicts of interest with the Moody's Credit Rating business have in place procedures and mechanisms, to minimize the likelihood that conflicts of interest will arise.	MIS will separate, operationally and legally, its Credit Rating Services and Analysts from any other businesses, including Non-Rating Services and consulting businesses, that may present a conflict of interest. For Ancillary Services that do not necessarily present conflicts of interest with MIS's Credit Rating Services, MIS will have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise, or to appropriately manage those conflicts that may arise.

2. Disclosure of Compensation Arrangements — Code Section 2.8

The June 2005 version of our Code provided for disclosure of the general nature of our compensation arrangements with rated entities, including whether we receive compensation unrelated to our Credit Ratings and related research. In the June 2005 version of the Code, however, we did not adopt the IOSCO Code provision regarding disclosure of the proportion of non-rating fees to rating fees received from a given Issuer. We explained in the 2006 Report that MIS does not provide advisory or consulting services that enable Issuers to retain MIS Analysts for advice on general management or rating-related matters. In addition, we described MIS non-rating services as insignificant and supported this view with reference to 2005 financial results, when non-rating services accounted for less than 1% of 2005 revenue. As a result, in our 2006 Report, we identified this area as a difference between our Code and the IOSCO Code.[3]

Regardless, our approach may have caused some confusion as to our practices. Now, as discussed above, in the revised version of the MIS Code, we have defined all products and services that are unrelated to the Credit Rating process as Non-Rating Services. The revised Code further states that all Non-Rating Services will be operationally and legally separated from MIS. Consequently, MIS will not receive any compensation unrelated to its rating services, obviating the need for the disclosure called for in the IOSCO Code. If, in the future, MIS were to receive compensation unrelated to its rating services from a rated Issuer, the revised Code provides that we would disclose the proportion of non-rating fees to rating fees received from that Issuer. Section 2.8 of the MIS Code now fully conforms to the IOSCO Code.

3 We also identified the deviation on MIS's Disclosure statement posted on the *Regulatory Affairs* page on our website, www.moodys.com.

We also have updated MIS's Disclosure statement on the *Regulatory Affairs* page on our website, www.moodys.com.

Code Section 2.8

June 2005 MIS Code	October 2007 MIS Code
Moody's will disclose the general nature of its compensation arrangements with rated entities, including whether it receives compensation unrelated to its Credit Ratings and related research.	MIS will disclose the general nature of its compensation arrangements with rated entities. MIS does not provide Non-Rating Services and as such does not receive from rated Issuers compensation unrelated to its Credit Rating Services or Ancillary Services, such as compensation for consulting services. If MIS were to receive from a rated Issuer compensation for Non-Rating Services unrelated to its Credit Rating Services or Ancillary Services, MIS would disclose the proportion such Non-Rating fees constitute against the fees MIS receives from the Issuer for Credit Rating Services.

3. Issuer Fee Discussions — Code Section 2.12

We have modified this provision to conform fully to the IOSCO Code. Prior to the modification, the MIS Code had prohibited "Analysts who do not have management responsibilities" and who are directly involved in rating an Issuer from initiating or participating in fee or payment discussions with that Issuer. We have broadened the restriction in the MIS Code such that no Analyst (including those with management responsibility) who are directly involved in the rating process may initiate or participate in such discussions with any entity they rate. While we believe the previous language met the IOSCO Code's objective of minimizing conflicts of interest, we believe this additional step will provide greater comfort to the market of the independence and integrity of our Analysts.

Code Section 2.12

June 2005 MIS Code	October 2007 MIS Code
Moody's will not have Analysts without Management responsibilities who are directly involved in the rating process for an Issuer initiate, or participate in, discussions regarding fees or payments with such Issuer.	MIS will not have Analysts who are directly involved in the rating process initiate, or participate in, discussions regarding fees or payments with any entity they rate.

III. Implementation Changes

Since issuing the 2006 Report, we have refined certain aspects of implementing the MIS Code, the most important of which are discussed in greater detail below. First, as discussed in Section II above, we have separated MIS from other business activities of Moody's Corporation. Second, we have implemented various enhancements to our Credit Policy function.

1. Separation of MIS from other Moody's Corporation Entities

In August 2007, Moody's Corporation announced a reorganization of its businesses into two distinct operating divisions — MIS and Moody's Analytics. Under the reorganized structure, MIS will continue to provide Credit Ratings and related services, while a new unit — Moody's Analytics — will bring together Moody's KMV, Economy.com and other businesses outside the rating agency, along with sales and marketing for all of Moody's Corporation. This new structure is designed to serve business needs and reinforce the independence of MIS's ratings businesses. We believe that under the new structure of our corporate parent, we will be able to reinforce the separation of the rating agency functions from other, commercial activities of the corporation. In this respect, MIS reaffirms its commitment to providing objective, independent and rigorous rating opinions.

2. Enhanced Credit Policy Function

Over the past year, MIS has further bolstered the independence of our Credit Policy function.[4] The Credit Policy function promotes the broad principles of consistency, rigor and transparency by exercising informed oversight over the process for generating rating opinions as well as the development and vetting of rating methodologies. While historically the Credit Policy function was an amalgamation of various committees, over the past year we have re-organized the group such that the overall Credit Policy structure is now overseen by MIS's newly appointed and independent Chief Credit Officer, who is directly accountable to the President of MIS and to the Chief Executive Officer and Chairman of MCO. The Credit Policy structure has four components:

- The Chief Credit Officer presides over the Credit Policy Committee (the "CPC"), which comprises senior managers representing our principal rating groups worldwide. The CPC sets high-level rating policies for each of the rating groups, monitors appropriateness and completeness of rating methodologies and approves any

4 For a more general discussion of the Credit Policy function, please see page 4 of the 2006 Report.

significant changes to MIS's rating methodologies and procedures. The CPC has operational arms in the form of rating group committees, which oversee analytics and procedural issues in each of MIS's major rating groups. There are also topic-specific rating committees, which focus on providing methodological guidance on topics that cut across MIS's franchises and/or jurisdictions.

- The Credit Policy and Research Team, which reports directly to the Chief Credit Officer and is independent of the rating groups, assesses the performance of ratings (e.g., by conducting and publishing default studies).
- A matrix of full-time chief credit officers in the rating groups, as well as industry and regional credit officers, work with the rating groups, each other, credit committees, the CPC and the Chief Credit Officer to ensure that rating methodologies and policies are implemented consistently across the organization.
- MIS has an extensive professional development and training program that has been designed to enhance the quality of MIS's rating analysis and Analysts' understanding of relevant policies and procedures. MIS Analysts are required to meet annual, continuing education requirements by completing MIS's courses or approved, external courses. Oversight of MIS's professional development group lies with the Credit Policy and Research Team, which is responsible for regularly evaluating the professional development group and reporting to MIS's CEO on its effectiveness.

IV. Differences between the MIS Code and the IOSCO Code

In the 2006 Report, we discussed the substantive areas in which the MIS Code differed from the IOSCO Code, and explained how our Code achieved the goals of the IOSCO Code despite these differences. With the recent modifications to our Code, two areas that were discussed in the 2006 Report have now been modified to conform to the IOSCO Code — Section 2.8, *Disclosure of Compensation Arrangements*; and Section 2.12, *Fee Discussions with Issuers*. As a result, these sections are not addressed in Section III of this Report.

Below, we explain those remaining substantive differences between the MIS Code and the IOSCO Code. The explanations for the differences are the same as in the 2006 Report, and include (i) additional provisions to more fully describe our rating process or to address areas not reflected in the IOSCO Code; and (ii) provisions written to more closely correspond with our business environment and practices.

A. Additional MIS Code Provisions

This section discusses those provisions which MIS added to the Code to more fully describe our rating practices or procedures or address areas not reflected in the IOSCO Code.

1. Public Disclosure of Credit Ratings

IOSCO Code	MIS Code
(There is no parallel IOSCO Code section.)	3.3 Upon the request of an Issuer, and at MIS's sole discretion, MIS may agree to keep a Credit Rating confidential. However, if an Issuer or security — including a tranche of a structured finance security — already carries a public Credit Rating from MIS, all subsequent decisions to change or discontinue such Credit Rating will be made available to the public without cost.

MIS added Code Section 3.3 to explain in more detail our policies regarding the transparency of Credit Rating disclosures and our approach to keeping Credit Ratings confidential. We believe that once a Credit Rating has been made publicly available, subsequent rating actions regarding that Credit Rating also should be made publicly available in order to ensure that market participants have our most current opinion on a particular Credit Rating. MIS believes this provision serves the overall objective of transparency of rating disclosures and is consistent with Section 3.4 of the IOSCO Code, which acknowledges the right of credit rating agencies to issue private ratings to the issuer.

2. Rating Appeal Process

IOSCO Code	MIS Code
(There is no parallel IOSCO Code section.)	3.9 Where not precluded by specific circumstances, MIS will allow the Issuer a brief period of time, which may vary depending on the circumstances, to notify MIS of the Issuer's desire to appeal the Credit Rating decision. Appeals must be based on information not previously available to the Issuer or MIS.

MIS added Code Section 3.9 to explain our process for considering an "appeal" of a Credit Rating decision on an existing published Credit Rating. As described in Section II.A.4.c of the 2006 Report, an appeal is not intended to enable an Issuer with an existing published Credit Rating, who is dissatisfied with the outcome of a review of that Credit Rating, to delay publication of the new Credit Rating. Rather, it is typically available to an Issuer who provides information not previously available to the Issuer or MIS, which the Issuer believes is relevant to its credit assessment. MIS believes that the appeal process, and our description of the process in the Code, enhances the transparency of our Credit Rating policies and our ability to provide timely and well-informed rating disclosures.

3. Request for Comment

IOSCO Code	MIS Code
3.10 Because users of credit ratings rely on an existing awareness of CRA methodologies, practices, procedures and processes, the CRA should fully and publicly disclose any material modification to its methodologies and significant practices, procedures, and processes. Where feasible and appropriate, disclosure of such material modifications should be made prior to their going into effect. The CRA should carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.	3.13 MIS will publicly disclose via press release and posting on moodys.com any material modifications to its rating methodologies and related significant practices, procedures, and processes. Where feasible and appropriate, disclosure of such material modifications will be made subject to a "request for comment" from market participants prior to their implementation. MIS will carefully consider the various uses of Credit Ratings before modifying its rating methodologies, practices, procedures and processes.

MIS Code Section 3.13 parallels IOSCO Code Section 3.10. In addition, we have noted our practice to request comment from market participants prior to implementation of material modifications to our rating methodologies and related significant practices, procedures and processes. We believe this practice helps us develop analytical frameworks that consider and incorporate varying views from users of our Credit Ratings and enhances our methodological rigor and analytical transparency.

4. Separation of Research Sales Staff from the Ratings and Research Process

IOSCO Code	MIS Code
(There is no parallel IOSCO Code section.)	3.14 As a publisher of credit research related to its Credit Ratings, MIS will seek to provide clear, accurate, transparent and high quality research about rated Issuers and issues. Research sales shall be separated from the research and rating process in ways that help protect the latter activities from improper conflicts of interest. As provided elsewhere in this section, Confidential Information and non-public information about MIS's future rating actions may not be selectively disclosed to research subscribers or others.

MIS added Section 3.14 to our Code because, in addition to our publicly available Credit Ratings, we provide subscription-based credit research products as a part of our Credit Rating activities. Our credit research publications are largely developed by our Analysts as an extension of the Credit Rating analysis process, and they provide more information about a particular Issuer, industry or asset class. However, we believe that Employees responsible for the sale of those products should be separate from our Analysts in order to promote Analyst independence and prevent potential conflicts of interest that might otherwise arise.

B. Differences to Reflect MIS's Business Environment and Practices

This section describes modifications to the MIS Code that we made in developing our Code so that it more closely corresponds to our business environment and practices.

1. Unsolicited Credit Ratings and Non-Participating Credit Ratings

IOSCO Code	MIS Code
3.9 For each rating, the CRA should disclose whether the issuer participated in the rating process. Each rating not initiated at the request of the issuer should be identified as such. The CRA should also disclose its policies and procedures regarding unsolicited ratings.	3.11 In order to promote transparency, and in accordance with MIS's Policy on Designation of Ratings in Which the Issuer Has Not Participated, MIS will publicly designate and disclose Non-Participating Credit Ratings.
(There is no parallel IOSCO Code section.)	3.12 MIS has not assigned Unsolicited Credit Ratings in the recent past. However, as a publisher of opinions about credit, MIS reserves the right in the future to issue Unsolicited Credit Ratings if MIS believes: (i) there is a meaningful credit market or investor interest served by the publication of such a rating; and (ii) it has sufficient information to support adequate analysis and, if applicable, ongoing surveillance. In accordance with MIS's Policy on Designating Unsolicited Credit Ratings, when a Credit Rating is an Unsolicited Credit Rating, MIS will not seek or accept remuneration for its analytical services from the Issuer for at least one year after the publication of such rating.

MIS believes that all of our Credit Ratings provide comparable informational value because we will only assign a Credit Rating when we believe we have sufficient information to form a useful conclusion. We recognize, however, that market participants have shown an interest in understanding which ratings lack the Issuer's participation. IOSCO Code Section 3.9 addresses this issue through disclosure standards for ratings in which the issuer did not participate and for policies related to unsolicited ratings.

In the MIS Code, we have included separate provisions related to Non-Participating Credit Ratings and Unsolicited Credit Ratings, and we have in each case implemented a policy that sets forth our disclosure standards. These policies, titled *Designating Issuers That Do Not Participate in the Rating Process* and *Designating Unsolicited Credit Ratings*, can be found on www.moodys.com. For Non-Participating Credit Ratings, we make disclosures both in related Credit Rating announcements and in a separate list that is maintained on

www.moodys.com. While we have not assigned Unsolicited Credit Ratings in the recent past, if in the future we assign such ratings we will indicate in the initial Credit Rating announcement that the Credit Rating was initiated by MIS. We believe that these standards address the disclosure objectives stated in IOSCO Code Section 3.9.

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