MOODY'S
INVESTORS SERVICE

European Union Transparency Report

ISSUED IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2014

Moody's Investors Service
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 2014[1].

[1] The effective date of this Transparency Report is 31 March 2015. The report was published 31 March 2015 and amendments to text were made on 2 April 2015.

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

A. Moody's in the European Union

The EU has one of the largest, deepest and most diverse economies in the world. In the past few years, its institutions and Member States have pursued reforms to achieve greater integration, efficiency and stability across its economy and financial markets. Moody's Investors Service ("MIS") is committed to contributing to the health, stability and future expansion of the EU's capital markets by meeting the growing demand for independent credit opinions.

MIS began to rate European issuers in 1920. The development of the Eurobond market in the 1980s, achievement of monetary union in the 1990s and successive rounds of enlargement of the EU have all been catalysts for substantial growth of the European capital markets, and, in turn, our operations. We opened our first European office in London in 1986. Today MIS is one of the EU's leading credit rating agencies ("CRAs"), with offices in the Czech Republic, Cyprus, France, Germany, Italy, Poland, Spain and the United Kingdom. Reflecting our commitment to the region and our objective to be the most respected provider of credit ratings and research, MIS has increased the size of our EU-based analytical staff by approximately 45%[2] since year-end 2010.

B. Commentary and analysis

Although a macroeconomic recovery began in the EU in 2013, it lost momentum in 2014. Weak growth, high unemployment in some countries, sluggish consumer confidence, high debt levels in parts of the public and private sectors, restrictive financing conditions, and the risk of deflation or prolonged low inflation, among other factors, present challenges. Renewed concerns about the possibility of exit from the single currency also have surfaced lately.

MIS has been paying close attention to these and other areas of interest identified by market participants and policymakers. When appropriate, we have offered our perspective on the credit implications of these developments through published analysis and/or participation in public discussion forums. For example: The homepage of moodys.com highlights our credit opinions and research on the theme Euro Area – The Road to Sustainable Growth. In 2014, we commented on the credit implications of many developments, including bank regulatory reforms, European Central Bank initiatives, the evolution of European capital markets (including efforts to revive securitisation, trends toward disintermediation in capital markets, the emergence of new debt instruments and developments in high-yield debt securities issuance and performance), macroeconomic developments, infrastructure finance, political risks (such as the Ukraine crisis, Russia sanctions, and possibility of an independent Scottish sovereign state), and the Juncker Investment Plan.

MIS also has commented extensively on credit issues relating to emerging European markets and the European periphery. For example, in 2014, we published research on such topics as the banking sector in the Balkan states and results of our survey of chief financial officers in the Central and Eastern European banking sector.

[2] In this context, "analytical staff" refers to staff allocated to new credit ratings, rating reviews and/or methodology appraisal as reported in Section IV of MIS's Transparency Reports for the years ended December 31, 2010-2014.

In addition, MIS participates actively in a wide range of European events organised by think tanks, trade associations, universities, and policymakers. MIS itself holds many regular conferences and briefings in Europe for investors where our analysts present their views and engage in dialogue with market participants. For example, in 2014 analysts participated in events in 17 European cities on a wide range of topics touching on European credit matters.

C. Credit ratings in EU financial markets

Although bank credit remains the predominant source of debt financing for the European economy, there has been some diversification in funding sources more recently. Constrained bank balance sheets and more receptive financial markets, reflecting investor appetite for yield, have led to growth in bond issuance in the region. Access to bond markets, however, is uneven and bond issuance has not fully compensated for the fall in bank loans in some countries. In particular, bond market access for many small and medium-sized enterprises remains elusive.

Policymakers, market participants and commentators have stressed that broadening and deepening the EU's capital markets are critical to achieving sustainable economic growth.[3] We believe that credit ratings can help with this agenda.[4] MIS's credit ratings, which are produced on a globally consistent rating scale, provide a framework and a common language of credit. This framework and language can help bridge geographical, political, institutional and other differences so that investors in one country can more readily compare the relative credit risk of securities issued in different markets. EU issuers, therefore, can enhance their access to investors inside and outside the region by obtaining globally comparable credit ratings. By enabling a deeper understanding of credit risk, our credit ratings facilitate deeper, more transparent and more efficient primary and secondary markets.

We recognise, however, that our role is limited. In our view, credit ratings are most helpful when they are used to supplement market professionals' own assessment of credit risk and promote dialogue among market participants. Furthermore, credit ratings are opinions about only one characteristic of a debt issuer – the relative likelihood that it will repay its debt in a timely manner including any estimated financial loss in the event of default. It is our understanding that sophisticated market participants who use credit ratings typically use them in combination with their own analysis and other available measures of credit risk.[5] Although credit ratings are useful, they are just one tool in the toolbox.

In our view, policy initiatives regarding the use of credit ratings should focus on efforts to mitigate sole or mechanistic uses of credit ratings and other credit signals in regulation and/or by market participants. A mechanistic use of a signal like a credit rating occurs when a rating action or outlook triggers an action or omission without any scope for a discretionary response. Triggers that mandate such a non-discretionary response can introduce systemic risk due to the herd-like behavior and resulting cliff effects associated with mandatory dispositions of securities. Credit ratings, however, are not intended to be used mechanistically and, when used as intended, credit ratings will not operate to cause the effects described above.

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[3] See, *e.g.*, the European Commission's Green Paper, *Building a Capital Markets Union*, published in February 2015.

[4] The Financial Stability Board stated in its *Principles on Reducing Reliance on CRA Ratings* (2010):
"CRAs play an important role and their ratings can appropriately be used as an input to firms' own judgment as part of internal credit assessment processes. They can provide economies of scale in analysing credit on behalf of smaller and less sophisticated investors, and can be used as an external comparator by all investors in their own internal assessments."

[5] See, *e.g.*, Netherlands Authority for the Financial Markets, *Exploratory Study on the Use of Credit Ratings in the Netherlands* (March 2014), cited in Joint Committee of the European Supervisory Authorities' *Discussion Paper: The Use of Credit Ratings by Financial Intermediaries* at paragraph 39.

Accordingly, we believe that policymakers should not seek to eliminate such signals from private contracts or standards, given the lack of evidence showing widespread mechanistic use. We also support efforts to: (1) increase the availability of information to the market; and (2) encourage market participants to continue undertaking more of their own credit analysis, which may take into account external opinions such as credit ratings.

At MIS, we are committed to providing the market with credit analysis that is credible, useful, well-timed, innovative and predictive. By communicating clearly what we do, how we develop our credit opinions, and how our credit ratings perform, MIS seeks to provide market participants with the information they need to evaluate ratings quality and decide which analytical tools are appropriate for their needs. For example, we publish on our website our rating methodologies, detailed descriptions of our rating process and rating symbol systems, and a range of credit rating performance statistics and commentary on our ratings performance.[6]

D. Evolving policy and supervisory frameworks for CRAs in the EU

In the past few years, numerous reform proposals affecting the regulatory infrastructure of the EU financial services sector, including the CRA industry, have been the subject of vigorous, public debate. We have welcomed the opportunity to discuss with policymakers and stakeholders the policy and market mechanisms that are best suited to reinforcing useful, high quality ratings and improving market transparency without intruding on the independence of rating opinion content. As the regulatory framework for CRAs has developed, we have embraced the need for change to address the expectations of our supervisor, the European Securities and Markets Authority ("ESMA"), as well as the users of our credit ratings. We have used the feedback we have received, together with analysis of our ratings performance, lessons learned from credit market developments, and our own deliberations to enhance our ratings performance, bolster our management of conflicts of interest, increase the transparency of our ratings and ratings process, and strengthen our governance.

MIS remains strongly committed to evolving with the EU financial markets. We will continue seeking to engage in dialogue with public and private sector participants so that: (1) the role of CRAs and the appropriate use of credit ratings in financial markets are mutually understood; (2) credit ratings can continue to serve as a common language for market professionals to analyse and discuss credit risk; and (3) new policy initiatives support, not undermine, the development and dissemination of diverse credit insights. The development and operation of well-functioning markets is a responsibility that rests in part with the private sector. We take that responsibility seriously and look forward to meeting the needs of EU capital market participants within the context of the global financial system.

[6] See, *e.g., Guide to Moody's Default Research: October 2014 Update*, available on moodys.com.

II. Legal Structure and Ownership

The legal structure and ownership of the entities to which the Regulation is applicable (the "MIS EU Subsidiaries" and each an "MIS EU Subsidiary"[7]) are as follows:

- Moody's Investors Service Ltd.,[8]
- Moody's Deutschland GmbH,
- 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.

[7] ESMA approved the registration of Moody's Investors Service EMEA Limited ("MISEL") as a credit rating agency under Article 16 of the Regulation, with effect from 24th November 2014. MISEL commenced operations on 1st January 2015 and, on 2nd January 2015, Moody's Investors Service Limited transferred its Czech Republic branch to MISEL.

[8] Including its three operational branches: Moody's Investors Service Ltd., organizační složka (Czech Republic); Moody's Investors Service Ltd., Russian Branch and Moody's Investors Service Ltd., Poland Branch.

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 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 credit ratings. The group is overseen by MIS's Global Chief Credit Officer ("MIS Global CCO"), 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.

Credit Policy is split into two distinct functions with different roles: the Methodology Review Function (or MRF); and the Credit Review Function (or CRF).

The MRF fulfills the requirements of EU regulation to establish an "internal review function" which reviews and approves both the adoption of new methodologies, models, and key rating assumptions and changes to existing methodologies, models and key rating assumptions used in the credit rating process. The staff of the MRF includes the MIS Global CCO, the Managing Director for Credit Policy Research, and the Chief Credit Officers ("CCO(s)") for each of Corporate Finance & Infrastructure, Financial Institutions, Public Sector, and Structured Finance rating groups. The MRF also includes the staff of Credit Policy's Model Verification, Default Study Research Team, IT Support, and Policy Development teams. Its responsibilities include: 1) approval of new credit rating methodologies; 2) approval and oversight of changes to, and the retirement of, existing credit rating methodologies, models, and key rating assumptions; and 3) the annual review of the appropriateness and completeness of existing credit rating methodologies.

The MRF's deliberations and decisions are undertaken at the meetings of Credit Policy Standing Committees: one for each of MIS's ratings groups and one further senior standing committee. These standing committees consist of MIS individuals from the MRF, the CRF, and MIS's various rating groups. Only MRF members, however, vote on issues relating to credit rating methodologies. MRF members who approve credit rating methodologies may attend, but have no vote in, rating committees or Portfolio Reviews. The MIS Global CCO, as a member of the MRF, reports to the Boards of Directors and/or the supervisory bodies of each MIS EU Subsidiary on a regular basis.

The CRF consists of the Regional Chief Credit Officers ("CCO(s)") as well as the Group Credit Officers ("GCO(s)") and other Credit Policy members globally. Its role is to: promote cross-sector consistency in

the application of credit rating methodologies and quality of MIS's credit ratings. CRF members may vote in rating committees and lead Portfolio Reviews. CRF members may attend Credit Policy Standing Committees but may not vote to approve new or revised credit rating methodologies.

(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 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, 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 it is not a requirement of the Regulation, MCO maintains a centralised and independent Internal Audit Group, which is responsible for performing internal audits in relation to all MIS entities, including the MIS EU Subsidiaries. The Internal Audit Group 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, a NYSE-listed company, has established an Audit Committee (the "MCO Audit Committee") to which the Internal Audit Group reports.

(v) Enterprise Risk Management

Although it is not a requirement of the Regulation, MCO has established an Enterprise Risk Management Group 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 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 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. MIS has implemented a Securities Trading Policy to strengthen the prevention of conflicts of interest resulting from holding securities.

(viii) Management of Conflicts of Interest

All business models for credit ratings agencies may have potential conflicts of interest embedded in them. 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. As of 28 February 2014, MIS has published a specific list of its potential

conflicts for the EU[9] and has adopted policies and procedures to prevent, identify and manage them. In particular MIS has instigated 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 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[10] is operationally segregated from any analytical line of business 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.[11]
- 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 comply with these policies and procedures. The MIS Compliance Department monitors employee conduct regarding potential conflicts of interest.

(ix) Rating Committee

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 conduct of 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, how conflicts of interest are avoided and confidentiality is maintained.

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[9] See Moody's Investors Service Statement of Potential Conflicts of Interest in the European Union on www.moodys.com.

[10] MIS's Commercial Group is charged with global responsibility for business strategy and planning, and business relationships with issuers.

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

(x) Methodologies

MIS's credit rating methodologies are made publicly and freely available on its website. They are global in nature but may be tailored to take account of structural or regional variations. New credit rating methodologies or changes to existing credit rating methodologies are approved by the MRF members. 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

Except for credit ratings that clearly indicate that they do not entail ongoing surveillance, once a credit rating is published, MIS continuously monitors the credit rating 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's public 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. MIS anticipates that the publication of credit rating performance information in the upcoming 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

Surveillance of credit ratings, apart from SFG, typically is conducted continuously 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[12] relates to the allocation of staff in each of the MIS EU Subsidiaries under the following categories outlined below.[13]

- **Both New Credit Ratings and Credit Rating Reviews**: The data presented[14] 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 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 the MRF within MIS's global Credit Policy Group and is tasked with reviewing models that are used globally. They are located in the United States of America 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, the Communications Group, 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.[15]

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[12] For the purposes of this Transparency Report, all data and statistics cited below are provided as of 31 December 2014.

[13] 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.

[14] Staff identified may participate in credit rating activities as well as non-credit rating activities of MIS (as defined in section IX below).

[15] 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. [16]	CFG	FIG	PPIF	SFG	SOV	ALL OTHER	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews:	99	73	62	12	17	-	263
New Credit Ratings Only:	-	-	-	46	-	-	46
Credit Rating Reviews Only:	-	-	-	29	-	-	29
Methodology Appraisal:	-	-	-	-	-	11	11
Credit Ratings Support Staff:	2	-	1	14	-	49	66
Senior Management:	-	-	-	-	-	7	7
Total	101	73	63	101	17	67	422

MOODY'S DEUTSCHLAND GMBH	CFG	FIG	PPIF	SFG	SOV	ALL OTHER	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews:	21	13	1	5	9	-	49
New Credit Ratings Only:	-	-	-	12	-	-	12
Credit Rating Reviews Only:	-	-	-	6	-	-	6
Methodology Appraisal:	-	-	-	-	-	-	-
Credit Ratings Support Staff:	-	-	-	2	-	6	8
Senior Management:	-	-	-	-	-	8	8
Total	21	13	1	25	9	14	83

MOODY'S FRANCE SAS	CFG	FIG	PPIF	SFG	SOV	ALL OTHER	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews:	10	10	-	2	-	-	22
New Credit Ratings Only:	-	-	-	3	-	-	3
Credit Rating Reviews Only:	-	-	-	3	-	-	3
Methodology Appraisal:	-	-	-	-	-	1	1
Credit Ratings Support Staff:	-	-	-	-	-	-	-
Senior Management:	-	-	-	-	-	9	9
Total	10	10	-	8	-	10	38

[16] This includes staff located in any branch office of MIS Ltd.

MOODY'S ITALIA S.R.L.	CFG	FIG	PPIF	SFG	SOV	ALL OTHER	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews:	5	-	2	1	-	-	8
New Credit Ratings Only:	-	-	-	7	-	-	7
Credit Rating Reviews Only:	-	-	-	-	-	-	-
Methodology Appraisal:	-	-	-	-	-	-	-
Credit Ratings Support Staff:	-	-	-	-	-	-	-
Senior Management:	-	-	-	-	-	2	2
Total	5	-	2	8	-	2	17

MOODY'S INVESTORS SERVICE ESPAÑA S.A.	CFG	FIG	PPIF	SFG	SOV	ALL OTHER	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews:	4	7	2	1	-	-	14
New Credit Ratings Only:	-	-	-	6	-	-	6
Credit Rating Reviews Only:	-	-	-	3	-	-	3
Methodology Appraisal:	-	-	-	-	-	-	-
Credit Ratings Support Staff:	-	-	-	-	-	-	-
Senior Management:	-	-	-	-	-	2	2
Total	4	7	2	10	-	2	25

MOODY'S INVESTORS SERVICE CYPRUS LTD.	CFG	FIG	PPIF	SFG	SOV	ALL OTHER	GRAND TOTAL
Each of New Credit Ratings and Credit Rating Reviews:	-	12	-	-	-	-	12
New Credit Ratings Only:	-	-	-	-	-	-	-
Credit Rating Reviews Only:	-	-	-	-	-	-	-
Methodology Appraisal:	-	-	-	-	-	1	1
Credit Ratings Support Staff:	-	-	-	-	-	-	-
Senior Management:	-	-	-	-	-	3	3
Total	-	12	-	-	-	4	16

Grand Total	**141**	**115**	**68**	**152**	**26**	**99**	**601**

V. MIS's Record-Keeping Policy

Record-keeping processes in the MIS EU Subsidiaries are governed by 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 Group completed the annual audit of the MIS Compliance Department and issued a report in January 2015.[17] The audit focused on processes and controls to support employee compliance with regulatory requirements and an assessment of the independence of the MIS Compliance Department. The audit results indicate that the processes and controls reviewed are satisfactory to support employee compliance with regulatory requirements and confirmed that the MIS Compliance Department operates independently of MIS.

[17] The report covered the period from July 2013 to September 2014.

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 organizational structure and decision making procedures clearly specify reporting lines and allocate functions and responsibilities.

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 Chairman and Chief Executive Officer of MIS. Mr. McDaniel is based in New York. The President and Chief Operating Officer of MIS is Michel Madelain, who is based in London.

REGIONAL MANAGEMENT

MIS's management group is complemented by three regional managers for each of EMEA, Americas and Asia/Pacific. Oliver Beroud 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 his capacity as Regional Head of MIS EMEA, Olivier Beroud is a member of the Board of Directors 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, as noted above, reports in this capacity 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 MIS Compliance Department and the MRF and CRF within Credit Policy Group, or by 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 five lines of business: 1) corporate finance, 2) sovereign, 3) public, project and infrastructure finance, 4) structured finance and 5) financial institutions. A global manager for each line of business reports to the President and Chief Operating Officer of MIS and 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 regional line of business manager. This cross border reporting structure results in an escalation and 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

made relating to a particular line of business are implemented by the relevant management across jurisdictions or regions. 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 section IX of this Transparency Report for further information on MIS's management and corporate governance in each of the MIS EU Subsidiaries.

CREDIT POLICY GROUP

Within MIS, the Credit Policy Group is tasked with, among other things, promoting consistency and quality in credit ratings globally. As stated in Section III above, the Credit Policy Group is split into two distinct functions with different roles: the Methodology Review Function or MRF and the Credit Review Function or CRF. Because credit ratings are issued across sectors and regions, the Credit Policy Group also operates globally and regionally across sectors or lines of business. Consequently, individual members of the MRF and CRF 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. 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 and is overseen regionally by the EU Chief Credit Officer who reports to the MIS Global CCO. The Credit Policy Group provides reports to the Boards of Directors 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, the Boards of Directors of all MIS EU Subsidiaries 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 is set out in the Policy for Analyst Rotation (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 applies to all MIS EU Subsidiaries, except for those entities which are granted an exemption from its full application under the Regulation.[18] 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.

[18] 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[19] 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 2014. 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.

Amounts are stated in $ millions

MOODY'S INVESTORS SERVICE LTD.[20]	USD
Credit Rating Services	318.1
Non Credit Rating Services	25.0
Total Revenue	**343.1**

ASSET CLASS	USD
CFG	160.2
FIG	64.0
PPIF	44.0
SFG	64.2
SOV	10.7
Total	**343.1**

[19] 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.

[20] Includes Czech and Russian branches.

MOODY'S DEUTSCHLAND GMBH	USD
Credit Rating Services	72.3
Non Credit Rating Services	4.8
Total Revenue	**77.1**

ASSET CLASS	USD
CFG	41.8
FIG	17.5
PPIF	0.6
SFG	11.8
SOV	5.4
Total	**77.1**

MOODY'S FRANCE SAS	USD
Credit Rating Services	41.3
Non Credit Rating Services	4.0
Total Revenue	**45.3**

ASSET CLASS	USD
CFG	20.2
FIG	12.8
PPIF	0
SFG	11.2
SOV	1.1
Total	**45.3**

MOODY'S INVESTORS SERVICE ESPAÑA S.A.	USD
Credit Rating Services	32.8
Non Credit Rating Services	1.0
Total Revenue	**33.8**

ASSET CLASS	USD
CFG	11.3
FIG	7.8
PPIF	0.6
SFG	13.2
SOV	0.9
Total	**33.8**

MOODY'S ITALIA S.R.L.	USD
Credit Rating Services	9.8
Non Credit Rating Services	-0.1
Total Revenue	**9.7**

ASSET CLASS	USD
CFG	4.6
FIG	1.1
PPIF	0
SFG	3.2
SOV	0.8
Total	**9.7**

MOODY'S INVESTORS SERVICE CYPRUS LTD.	USD
Credit Rating Services	9.3
Non Credit Rating Services	0.3
Total Revenue	**9.6**

ASSET CLASS	USD
CFG	0
FIG	9.5
PPIF	0
SFG	0
SOV	0.1
Total	**9.6**

IX. Governance Statement

As an 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 Deutschland GmbH and Moody's France SAS (together the "Larger Entities"). An enhanced Unitary Board is in place for Moody's Investors Service 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.**
Four MIS members: Blair Worrall, Michel Madelain, Olivier Beroud, Nigel Phipps and three independent members: Alain Dromer, Jan Pethick and Rudolf Ferscha.[21]

» **Moody's Deutschland GmbH**
Four MIS members: Blair Worrall, Michel Madelain, Nigel Phipps, Stuart Hughes and three independent members: Alain Dromer, Jan Pethick and Rudolf Ferscha.[22]

» **Moody's France SAS**
Four MIS members: Blair Worrall, Michel Madelain, Nigel Phipps, Stuart Hughes and three independent members: Alain Dromer, Jan Pethick and Rudolf Ferscha.[23]

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**
Olivier Beroud (*Geschäftsführer*)[24].

» **Moody's France SAS**
Olivier Beroud (President) and Jean Vaucenat (Delegate General Manager)[25].

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[21] On 14 July 2014, Rodolfo Bogni resigned as an independent member and Jan Pethick and Rudolf Ferscha were appointed on 15 July 2014.

[22] On 14 July 2014, Rodolfo Bogni and Hermann Wagner resigned as independent members and Jan Pethick and Rudolf Ferscha were appointed on 15 July 2014.

[23] On 14 July 2014, Rodolfo Bogni resigned as an independent member and Jan Pethick and Rudolf Ferscha were appointed on 15 July 2014.

[24] On 16 June 2014, Daniel Kolter resigned and Detlef Scholz was appointed as Geschäftsführer. On 31 December 2014, Detlef Scholz resigned as Geschäftsführer.

[25] On 17 April 2014, Eric de Bodard resigned and Jean Vaucenat was appointed as 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 the following:

- ensuring the independence of credit rating activities, including independence from all political and economic influences or constraints;
- ensuring proper identification, management and disclosure of conflicts of interest;
- ensuring 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 Methodology Review Function within its 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 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 Function within its 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 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 fulfill its regulatory requirements. In 2014, 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 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 Group monitors the matters set out in Section 9.2(ii) of this report. In fulfilling these functions, the Head of the Internal Audit Group will receive reports prepared by MIS's Compliance Department and the MRF and CRF within Credit Policy Group. The Head of the Internal Audit Group 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.

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

» **Moody's Investors Service Cyprus Ltd.**
Olivier Beroud, Jehad el Nakla and Raymond Sey[26]

» **Moody's Italia S.r.l.**
Olivier Beroud and Jean Vaucenat[27]

» **Moody's Investors Service España, S.A.**
Olivier Beroud and Ian Glover[28]

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;

(e) the review of contingent liabilities and risks that might be material to MCO; and

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

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[26] On 18 April 2014, Mardig Haladjian resigned as a director and Raymond Sey was appointed as a director.
[27] On 15 April 2014, Eric de Bodard and Alex Cataldo resigned as directors and Jean Vaucenat was appointed as a director.
[28] On 24 April 2014, Juan Pablo Soriano resigned as a director.

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 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 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. 12.1%
- The Vanguard Group 7.3%
- BlackRock Inc. 6.1%

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 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
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