

European Rating House Code of Conduct

Colofon

Title:
Code of Conduct

Date:
28 February 2014

Publisher:
European Rating House CVBA-SCRL
Neerveldstraat 57 rue Neerveld
1200 Brussels
Belgium
Company register Number 0534485737
www.europeanratinghouse.eu

When referring to this document please mention:
“Code of Conduct, European Rating House, Brussels-Belgium, February 2014”

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Introduction

European Rating House (ERH) is an independent credit rating agency that draws up credit ratings that are independent, objective and comprehensible. Our mission is to provide high quality assessments of the credit risk of corporations. We are aware of our role in the Capital Markets and of our responsibility towards clients, investors and to society at large.

The International Organisation of Securities Commissions (IOSCO) has set up a Code of Conduct for Rating Agencies. The code contains general principles for integrity, independency and transparency for rating agencies. ERH adheres to the IOSCO Code of Conduct the key provisions of which are set out in this document

The management of ERH is appealed to see to it that the Code of Conduct is used in general practice. This towards our employees and the members of the Board of Directors. Violations against the Code of Conduct will result in disciplinary measures.

Important principles are independency, objectivity and comprehensibility. In this respect it is important to emphasize that our rating process is based on a highly reliable mathematical credit scoring model a we will start the rating with a score based on a sophisticated mathematical model, based on the published consolidated accounts (preferably over 5-7 years) from the corporation that is rated. Over a period of 12 years the results regarding prediction of business failure proved impressive and better than any method on the market.

The correlation between input and output from the mathematical model, taken in account the measures that ERH has taken to assure that the right (original) model is used, is transparent, comprehensible and objective. It cannot be influenced by however whom from ERH. The same input will always result in the same output in the form of a score that is the starting point for a final rating.

Quality and integrity of the rating process

A. *Quality of the Rating Process*

- 1.1 ERH has written procedures to ensure that the opinions it disseminates are based on a thorough analysis of all information known to the CRA that is relevant to its analysis according to ERH's published rating methodology.
- 1.2 ERH uses methodologies that are rigorous, systematic, and result in ratings that can be subjected to objective validation. This is due to the basic score that ERH uses as a starting point.

- 1.3 In assessing an issuer's creditworthiness, analysts of ERH will always use its unique score in the preparation or review of any rating action. In cases where the current method is not applicable, the engagement will be rejected when no alternative methods are available.
- 1.4 Credit ratings will always be assigned by ERH and not by any individual analyst employed by ERH; ratings will reflect all information known, and believed to be relevant, to ERH, and are consistent with its published methodology; ERH uses people who, individually or collectively have appropriate knowledge and experience in developing a rating opinion for the type of credit being applied.
- 1.5 ERH maintains internal records to support its credit opinions for at least 10 years.
- 1.6 ERH and its analysts avoid issuing any credit analyses or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of an issuer or obligation.
- 1.7 ERH ensures that it has and devotes sufficient resources to carry out high-quality credit assessments of all obligations and issuers it rates. When deciding whether to rate or continue rating an obligation or issuer, it assesses whether it is able to devote sufficient personnel with sufficient skill sets to make a proper rating assessment, and whether its personnel likely will have access to sufficient information needed in order to make such an assessment. Judgments about the above are made, considering the basic score method that is exclusively used by ERH.
- 1.8 ERH structures its teams so that continuity is promoted and bias in the rating process is avoided.

B. Monitoring and Updating

- 1.9 Except for ratings that clearly indicate they do not entail ongoing surveillance, in cases that a rating is published, ERH will monitor on an ongoing basis and update the rating by:
 - a. regularly reviewing the issuer's creditworthiness;
 - b. initiating a review of the status of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action (including termination of a rating), consistent with the applicable rating methodology; and,
 - c. updating on a timely basis the rating, as appropriate, based on the results of such review.
- 1.10 Should ERH make its ratings available to the public, she will publicly announce if it discontinues rating an issuer or obligation. Should ERH provide ratings only to its subscribers, ERH announces to its subscribers if it discontinues rating an issuer or obligation. In both cases, continuing publications by ERH of the discontinued rating indicate the date the rating was last updated and the fact that the rating is no longer being updated.

C. Integrity of the Rating Process

- 1.11 ERH and its employees will comply with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.

- 1.12 ERH and its employees will deal fairly and honestly with issuers, investors, other market participants, and the public.
- 1.13 ERH's analysts will be held to high standards of integrity, and ERH will not employ individuals with demonstrably compromised integrity.
- 1.14 ERH and its employees will not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This does not preclude ERH from developing prospective assessments used in structured finance and similar transactions.
- 1.15 ERH's management is responsible for the implementation and the observance of this Code of Conduct. An independent Compliance-Officer is appointed whose competence, resources and expertise are sufficient for his task. He has access to all information relevant to his task. The officer's reporting lines and compensation are independent of the CRA's rating operations
- 1.16 Upon becoming aware that another employee or entity under common control with ERH is or has engaged in conduct that is illegal, unethical or contrary to ERH's code of conduct, an ERH employee must report such information immediately to the Compliance Officer of ERH, as appropriate, so proper action may be taken. An ERH's employee is not necessarily expected to be experts in the law. Nonetheless, its employees are expected to report the activities that a reasonable person would question. Any ERH officer who receives such a report from an ERH employee is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the rules and guidelines set forth by ERH. ERH's management will prohibit retaliation by other ERH staff or by ERH itself against any employees who, in good faith, make such reports.

CRA Independence and avoidance of conflicts of interest

A. *General*

- 2.1 ERH will not forbear or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on ERH, an issuer, an investor, or other market participant.
- 2.2 ERH and its analysts will use care and professional judgment to maintain both the substance and appearance of independence and objectivity.
- 2.3 The determination of a credit rating will be influenced only by factors relevant to the credit assessment and depend strongly on the mathematical model.
- 2.4 The credit rating ERH assigns to an issuer or security should not be affected by the existence of or potential for a business relationship between ERH (or its affiliates) and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship.
- 2.5 ERH will separate, operationally and legally, its credit rating business and the ERH analysts from any other businesses of ERH, including consulting businesses, which may present a conflict of interest. ERH should ensure that ancillary business operations which do not necessarily present conflicts of interest with ERH's

rating business have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise.

B. CRA Procedures and Policies

- 2.6 ERH has written internal procedures and mechanisms to (1) identify, and (2) eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the opinions and analyses ERH makes or the judgment and analyses of the individuals ERH employs who have an influence on ratings decisions. ERH's code of conduct should also state that ERH will disclose such conflict avoidance and management measures.
- 2.7 ERH's disclosures of actual and potential conflicts of interest should be complete, timely, clear, concise, specific and prominent.
- 2.8 ERH will disclose the general nature of its compensation arrangements with rated entities. Where ERH receives from a rated entity compensation unrelated to its ratings service, such as compensation for consulting services, ERH will disclose the proportion such non-rating fees constitute against the fees ERH receives from the entity for ratings services.
- 2.9 ERH and its employees should not engage in any securities or derivatives trading presenting conflicts of interest with ERH's rating activities.
- 2.10 In instances where rated entities (e.g., governments) have, or are simultaneously pursuing, oversight functions related to ERH, different employees are used to conduct its rating actions than those employees involved in its oversight issues.

C. CRA Analyst and Employee Independence

- 2.11 Reporting lines for ERH employees and their compensation arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest. ERH's code of conduct should also state that a ERH analyst will not be compensated or evaluated on the basis of the amount of revenue that ERH derives from issuers that the analyst rates or with which the analyst regularly interacts.
- 2.12 ERH should not have employees who are directly involved in the rating process initiate, or participate in, discussions regarding fees or payments with any entity they rate.
- 2.13 No ERH employee should participate in or otherwise influence the determination of ERH's rating of any particular entity or obligation if the employee:
 - a. Owns securities or derivatives of the rated entity, other than holdings in diversified collective investment schemes;

- b. Owns securities or derivatives of any entity related to a rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes;
 - c. Has had a recent employment or other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest;
 - d. Has an immediate relation (i.e., a spouse, partner, parent, child, or sibling) who currently works for the rated entity; or
 - e. Has, or had, any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.
- 2.14 ERH’s analysts and anyone involved in the rating process (or their spouse, partner or minor children) should not buy or sell or engage in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity within such analyst’s area of primary analytical responsibility, other than holdings in diversified collective investment schemes.
- 2.15 ERH employees should be prohibited from soliciting money, gifts or favors from anyone with whom ERH does business and should be prohibited from accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.
- 2.16 Any ERH| analyst who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest (including, for example, any personal relationship with an employee of a rated entity or agent of such entity within his or her area of analytic responsibility), should be required to disclose such relationship to the appropriate Compliance Officer of ERH, as determined by the ERH’s compliance policies.

CRA Responsibilities to the investing public and issuers

A. Transparency and Timeliness of Ratings Disclosure

- 3.1 ERH will distribute in a timely manner its ratings decisions regarding the entities and securities it rates.
- 3.2 ERH will publicly disclose its policies for distributing ratings, reports and updates.
- 3.3 ERH will indicate with each of its ratings when the rating was last updated.
- 3.4 Except for “private ratings” provided only to the issuer, the ERH will disclose to the public on a non-selective basis and free of charge, any rating regarding publicly issued securities, or public issuers themselves, as well as any subsequent decisions to discontinue such a rating, if the rating action is based in whole or in part on material non-public information.

- 3.5 ERH will publish sufficient information about its procedures, methodologies and assumptions (including financial statement adjustments that deviate materially from those contained in the issuer's published financial statements) so that outside parties can understand how a rating was arrived at by the method ERH uses. This information will include (but not be limited to) the meaning of each rating category and the definition of default or recovery, and the time horizon ERH uses when making a rating decision.
- 3.6 When issuing or revising a rating, ERH will explain in its press releases and reports the key elements underlying the rating opinion. This will only express the basic elements of the mathematical method that ERH uses, but will include the precision of the predicted outcome in the past years.
- 3.7 Where feasible and appropriate, prior to issuing or revising a rating, ERH will inform the issuer of the critical information and principal considerations upon which a rating will be based and afford the issuer an opportunity to clarify any likely factual misperceptions or other matters that ERH would wish to be made aware of in order to produce an accurate rating. ERH will duly evaluate the response. Where in particular circumstances ERH has not informed the issuer prior to issuing or revising a rating, ERH will inform the issuer as soon as practical thereafter and, generally, should explain the reason for the delay.
- 3.8 In order to promote transparency and to enable the market to best judge the performance of the ratings, ERH, where possible, will publish sufficient information about the historical default rates of ERH ratings category (non-financial and not for profit) and whether the default rates have changed over time, so that interested parties can understand the historical performance of ERH's category and if and how rating categories have changed, and be able to draw quality comparisons among ratings given by different agencies. If the nature of the rating or other circumstances make a historical default rate inappropriate, statistically invalid, or otherwise likely to mislead the users of the rating, ERH will explain this.
- 3.9 For each rating, the ERH will disclose whether the issuer participated in the rating process. Each rating not initiated at the request of the issuer should be identified as such. ERH will also disclose its policies and procedures regarding unsolicited ratings.
- 3.10 Because users of credit ratings rely on an existing awareness of ERH methodologies, practices, procedures and processes, ERH will fully and publicly disclose any material modification to its methodologies and significant practices, procedures, and processes, especially regarding its basic method. Where feasible and appropriate, disclosure of such material modifications will be made prior to their going into effect. ERH will carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.

B. The Treatment of Confidential Information

- 3.11 ERH will adopt procedures and mechanisms to protect the confidential nature of information shared with them by issuers under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially. Unless otherwise permitted by the confidentiality agreement and consistent with applicable laws or regulations, ERH and its employees will not disclose confidential

information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise.

- 3.12 ERH will use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.
- 3.13 ERH employees should take all reasonable measures to protect all property and records belonging to or in possession of ERH from fraud, theft or misuse.
- 3.14 ERH employees should be prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.
- 3.15 In preservation of confidential information, ERH employees should familiarize themselves with the internal securities trading policies maintained by their employer, and periodically certify their compliance as required by such policies.
- 3.16 ERH employees will not selectively disclose any non-public information about rating opinions or possible future rating actions of ERH, except to the issuer or its designated agents.
- 3.17 ERH employees should not share confidential information entrusted to ERH with employees of any affiliated entities that are not Agencies. ERH employees will not share confidential information within ERH except on an “as needed” basis.
- 3.18 ERH employees should not use or share confidential information for the purpose of trading securities, or for any other purpose accept the conduct of ERH’s business.

Disclosure of the code of conduct and communication with market participants

- 4.1 ERH will disclose to the public its code of conduct and describe how the provisions of its code of conduct fully implement the provisions of the IOSCO Principles Regarding the Activities of Credit Rating Agencies and the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies. If a ERH’s code of conduct deviates from the IOSCO provisions, ERH will explain where and why these deviations exist, and how any deviations nonetheless achieve the objectives contained in the IOSCO provisions. ERH will also describe generally how it intends to enforce its code of conduct and should disclose on a timely basis any changes to its code of conduct or how it is implemented and enforced.
- 4.2 ERH will establish a function within its organization charged with communicating with market participants and the public about any questions, concerns or complaints that ERH may receive. The objective of this function should be to help ensure that ERH’s officers and management are informed of those issues that the ERH’s officers and management would want to be made aware of when setting the organization’s policies.

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