Conflicts of Interest Policy

MFR Credit Ratings

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Abbreviations and definitions

Abbreviations

AO	Admin Officer
BoD	Board of Directors
CEO	Chief Executive Officer
FM	Finance Manager
CA	Compliance Assistant
C&RO	Compliance & Risk Officer
CR	Credit Rating
CRA	Credit Rating Agency
CRAR	CRA Regulation
SM	Sales Manager-
ESMA	European Securities and Markets Authority
HCR	Head of Credit Ratings
HoO	Head of Operations
MFR	MicroFinanza Rating Ltd.
MFR CR	MFR Credit Ratings Ltd.

Definitions

Advice	means the provision of advisory or consulting services or the making of proposals or recommendations, on a formal or informal basis.
Analysts	means those individuals who perform Credit Rating Activities and Ancillary services. Analysts include lead analysts, analysts and junior analysts.
Analytical Personnel	means any Employee that performs “Rating Activities”.
Ancillary Services	means products and services that are not Credit Rating Services, and may include market forecasts, estimates of economic trends, pricing analysis or other general data analysis as well as related distribution services.
Business Event	means any activity, such as an industry conference, networking event, meeting or business meal, where the primary purpose is to engage in analytical, research or information-gathering activities or to conduct commercial activities.
Client	means an entity, its subsidiaries, and associated entities in which the entity has holdings of more than 20 %, as well as any other entities in respect of which it has negotiated the structuring of a debt issue on behalf of a client and where a fee was paid, directly or indirectly, to the credit rating agency for the rating of that debt issue.
Credit Rating	means a Rating that assesses the creditworthiness of an issuer or its Security (issue). All references to a Credit Rating in this document include the Credit Rating and, to the extent applicable, any related rating Outlook or rating Review.

Credit Rating Action	means the issuance of an initial credit rating or an upgrade or a downgrade (including to a default category), a withdrawal, a reiteration (affirmation) of a past credit rating, or even placing an existing rating under observation. It refers to any change relating to the level of an existing rating and/or its modifiers and/or attributes (such as, for example, rating outlook).
Credit Rating Activities	include data and information analysis and the evaluation, approval, issuance and review of Credit Ratings, including acting as the chairperson or voting member of a Credit Rating committee. Credit Rating Activities do not include general analytical management activities and oversight (including discussing issues with Analysts under direct supervision), attendance at management meetings or participating as an observer (i.e., non-voting member) in a credit rating committee.
Non-Rating Services	include ancillary services and other permissible services.
Other Permissible Services	means those products and services that are not Credit Rating Services or Ancillary Services.
Rated Entity	means, along with its agents: (i) the issuer, obligor or a Related Third Party with respect to any Security that has received or is expected to receive, as the case may be, a Rating from MFR CR or (ii) an entity to which MFR CR has currently assigned or is expected to assign, as the case may be, a Rating.
Rating	means a rating that assesses the creditworthiness of an issuer or its Securities.
Related Third Party	means the originator, arranger, sponsor, servicer or any other party that interacts with MFR CR on behalf of a Rated Entity, including any person directly or indirectly linked to that Rated Entity by control.
Security(ies)	means any security, programme or other financial instrument encompassed in the definition of Article 4, par. 1 (16) of Directive 2014/65/Eu of the European Parliament and of the Council of 15 May 2014.

1. Purpose and Scope of the document

The purpose of this document is to describe the policy for the identification, management, mitigation and/or elimination and disclosure of potential and actual conflicts of interest.

2. General principles and policy

A conflict of interest is any situation in which a person or organization is involved in an interest (financial or other) that could adversely influence the motivation or decision-making of that person or organization to act in the best interest of the clients or MFR CR. Note that all references to clients in this policy also refer to potential clients.

MFR CR is a commercial enterprise which receives compensation from rated entities and other third parties in return for analysis performed with respect to credit ratings. This can give rise to conflicts of interest potentially affecting the interests of clients, investors or other third-parties or improperly influencing the performance of staff's duties and responsibilities, or could compromise the staff's impartiality, objectivity or independence.

BoD's members and the senior management of MFR CR ensure that:

(a) credit rating activities are independent, including from all political and economic influences or constraints; and
(b) conflicts of interest are properly identified, managed and disclosed.

MFR CR takes all necessary steps to ensure that the issuing of a credit rating or a rating outlook is not affected by any existing or potential conflict of interest or business relationship involving MFR CR issuing the credit rating or the rating outlook, its shareholders, managers, rating analysts, employees or any other natural person whose services are placed at the disposal or under the control of MFR CR, or any person directly or indirectly linked to it by control.

MFR CR identifies, eliminates, or manages and discloses, clearly and prominently, any actual or potential conflict of interest that may influence the analyses and judgments of its rating analysts, employees, or any other natural person whose services are placed at the disposal or under the control of MFR CR and who are directly involved in credit rating activities and persons approving credit ratings and rating outlooks.

The effective implementation of policies and procedures addresses how the following conflicts can potentially influence MFR CR's credit rating methodologies or credit rating actions:

(a) being paid by the rated entity to issue a credit rating;
(b) being paid by subscribers with a financial interest that could be affected by a credit rating action of MFR CR;
(c) having a direct or indirect ownership interest in a rated entity or obligor, or a rated entity or obligor having a direct or indirect ownership interest in MFR CR.

MFR CR's disclosures of known actual and potential conflicts of interest are complete, timely, clear, concise, specific, and prominent.

Conflicts of interest in MFR CR are identified as early as possible before they actually materialize. Once identified as a potential conflict, MFR CR may still be able to implement controls to mitigate effectively the risk that it actually occurs. On the other hand, a conflict that is identified too late can have significant legal and regulatory implications for MFR CR, having a detrimental effect on client relationships as well as adversely impacting MFR CR's reputation.

MFR CR has established, maintained and enforced an effective internal control structure governing the implementation of policies and procedures to prevent and mitigate possible conflicts of interest and to ensure the independence of credit ratings, rating analysts, rating teams and rating committees regarding shareholders, administrative and management bodies and sales and marketing activities.

MFR CR has established appropriate and effective organizational and administrative arrangements to prevent, identify, eliminate, or manage and disclose, clearly and prominently, any actual or potential conflicts of interest that may influence the analyses and judgments of its rating analysts, employees, or any other natural person whose services are placed at the disposal or under the control of MFR CR and who are directly involved in credit rating activities and persons approving credit ratings and rating outlooks.

MFR CR has arranged for records to be kept of all significant threats to the independence of the credit rating activities, including those to the rules on rating analysts and other persons directly involved in credit rating activities (as specified in Annex I, Section C of the CRAR) as well as the safeguards applied to mitigate those threats.

MFR CR ensures that, when assigning ratings, rating analysts may only consider those factors known and believed to be relevant for the analysis of the creditworthiness of a rated entity or a security. MFR CR and its rating analysts use care and professional judgment to maintain both the substance and appearance of independence and objectivity. Ratings assigned to a rated entity or security must not be affected by whether there is an existing or potential business relationship between MFR CR and the rated entity or any other third party.

Once an existing or potential conflict of interest has been identified, MFR CR evaluates the conflict to determine the best course of action with a focus on preventing and managing such conflict of interest. Decisions around the conflict of interest are documented, including any mitigants.

3. Prohibitions and disclosure requirements

3.1. Investments in other credit rating agencies

Conflicts of interest arise if the direct and indirect shareholders of MFR CR have the power to exercise control or a dominant influence over any other credit rating agency registered in the EU, which is not part of MFR group.

A shareholder or a member of MFR CR holding directly or indirectly at least 5% of either the capital or the voting rights of MFR CR, is prohibited from:

a. holding 5% or more of the capital of any other credit rating agency registered in EU, which is not part of MFR group. This prohibition does not apply to holdings in diversified collective investment schemes, including managed funds such as pension funds or life insurance, provided that the holdings in such schemes do not put the shareholder or member in a position to exercise significant influence on the business activities of those schemes;
b. having the right or the power to exercise 5% or more of the voting rights in any other credit rating agency registered in EU, which is not part of MFR group;
c. having the right or the power to appoint or remove board members of any other credit rating agency registered in EU, except for other credit rating agencies owned by MFR which is not part of MFR group;
d. being a board member of any other credit rating agency registered in EU, which is not part of MFR group;
e. exercising or having the power to exercise control or a dominant influence over any other credit rating agency registered in EU, which is not part of MFR group.

3.2. Cases in which a credit rating or rating outlook cannot be issued

MFR CR does not issue a credit rating or a rating outlook in any of the following circumstances, or in the case of an existing credit rating or rating outlook, immediately discloses where the credit rating or rating outlook is potentially affected by the following:

(a) MFR CR or its analytical personnel directly or indirectly owns financial instruments of the rated entity or a related third party or has any other direct or indirect ownership interest in that entity or party within the meaning of Article 1(2) of Directive 2004/72/EC (1), other than holdings in diversified collective investment schemes, including managed funds such as pension funds or life insurance;

(b) a shareholder of MFR CR holding 10% or more of either the capital or the voting rights of MFR CR or being otherwise in a position to exercise significant influence on the business activities of MFR CR, holds 10% or more of either the capital or the voting rights of the rated entity or of a related third party, or of any other ownership interest in that rated entity or third party, excluding holdings in diversified collective investment schemes and managed funds such as pension funds or life insurance, which do not put him in a position to exercise significant influence on the business activities of the scheme;

(c) the credit rating is issued with respect to the rated entity or a related third party directly or indirectly linked to the credit rating agency by control;

(d) the credit rating is issued with respect to a rated entity or a related third party that holds 10% or more of either the capital or the voting rights of MFR CR;

(e) the analytical personnel of MFR CR is a member of the administrative or supervisory board of the rated entity or a related third party; or

(f) a shareholder of MFR CR holding 10% or more of either the capital or the voting rights of MFR CR or being otherwise in a position to exercise significant influence on the business activities of MFR CR, is a member of the administrative or supervisory board of the rated entity or a related third party;

(g) a lead and/or rating analyst who participated in determining a credit rating, or a person who approved a credit rating, has had a relationship (for instance recent employment or business) with the rated entity or a related third party which may cause a conflict of interest.

The abovementioned obligations relate also to: (a) indirect shareholders covered by Article 10 of Directive 2004/109/EC; and (b) companies that control or exercise a dominant influence, directly or indirectly, on MFR CR, and which are covered by Article 10 of Directive 2004/109/EC.

In all the cases in which MFR CR is not compliant with at least one of the mentioned obligations, MFR CR has to immediately assess whether there are grounds for re-rating or withdrawing the existing credit rating or rating outlook.

3.3. Cases in which a credit rating or rating outlook requires mandatory disclosures

MFR CR discloses where an existing credit rating or rating outlook is potentially affected by the fact that a shareholder or member of MFR CR holding 5% or more of either the capital or the voting rights of MFR CR or being otherwise in a position to exercise significant influence on the business activities of MFR CR:

(a) holds 5% or more of either the capital or the voting rights of the rated entity or of a related third party, or of any other ownership interest in that rated entity or third party. This excludes holdings in diversified collective investment schemes and managed funds such as pension funds or life insurance, which do not put him/her in a position to exercise significant influence on the business activities of the scheme;
(b) is a member of the administrative or supervisory board of the rated entity or a related third party.

Provided that the information is known or should be known by MFR CR, the abovementioned obligations relate also to:

- indirect shareholders covered by Article 10 of Directive 2004/109/EC; and
- companies that control or exercise a dominant influence, directly or indirectly, on MFR CR, and which are covered by Article 10 of Directive 2004/109/EC.

4. Rules on personnel directly involved in credit rating

MFR CR adopts measures aimed at preventing or restricting any person from exercising inappropriate influence over the way in which a rating analyst provides credit rating activities. MFR CR supervises the rating analysts and other MFR CR employees whose main tasks involve credit rating activities, whenever they may have conflicting interests, including with the interests of MFR CR.

An MFR CR employee does not participate in or otherwise influence MFR CR's credit rating action with respect to an entity if the employee, or persons closely associated with him/her within the meaning of Article 1(2) of Directive 2004/72/EC (an immediate family member of the employee: spouse, domestic partner, or dependent), or an entity managed by the employee (e.g., a trust):

- holds or transacts in a trading instrument issued by the rated entity;
- holds or transacts in a trading instrument (other than a diversified collective investment scheme) that itself owns an interest in the rated entity or obligor, or is a derivative based on a trading instrument issued by the rated entity or obligor;
- holds or transacts in a trading instrument issued by an affiliate of the rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest with respect to the employee or MFR CR;
- is currently employed by, or had recent employment or other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest;

- is a director of the rated entity; or
- has, or had, another relationship with or interest in the rated entity (or any of their affiliates) that may cause or may be perceived as causing a conflict of interest.

MFR CR's analyst shall not hold or transact in a trading instrument issued by a rated entity in the analyst's area of primary analytical responsibility. This would not preclude an analyst from holding or trading a diversified collective investment scheme that owns a trading instrument issued by a rated entity or obligor in the analyst's area of primary analytical responsibility.

MFR CR does not delay or refrain from taking a credit rating action based on the potential effect (economic, political, or otherwise) of the action on MFR CR, a rated entity, investor, or other market participants.

MFR CR maintains policies establishing firewalls and governing the segregation of operations between its rating analysts and its non-rating employees designed to mitigate potential conflicts of interest. MFR CR, where practical, separates operationally its rating business and rating analysts from other MFR CR businesses that may present a conflict of interest.

MFR CR structures reporting lines for MFR CR employees and their compensation arrangements in order to eliminate or effectively manage actual and potential conflicts of interest. MFR CR conducts formal and periodic reviews of its compensation policies and practices for its rating analysts and other employees who participate in or who might otherwise have an effect on the rating process to ensure that these policies and practices do not compromise the objectivity of MFR CR's rating process or analysts.

MFR CR ensures that rating analysts will not be allowed to initiate or participate in sales and marketing activities, negotiations regarding fees or payments with any rated entity, related third party or any person directly or indirectly linked to the rated entity by control, or be influenced by sales and marketing considerations. MFR CR ensures that its rating analysts and its non-rating employees, when participating in Business Events, maintain a clear separation of analytical and commercial activity.

MFR CR ensures that rating analysts take all reasonable measures to protect property and records in possession of MFR CR from fraud, theft or inappropriate usage, taking into account the nature, scale and complexity of its business and the nature and range of its credit rating activities.

MFR CR reviews, as appropriate, the past work of analysts that left MFR CR and joined an issuer that the analyst has been involved in rating, or an issuer, or financial firm with which the analyst has had dealings as part of his/her duties at MFR CR. If it appears that a conflict has influenced a credit rating, then MFR CR will promptly disclose the potential conflict and, as appropriate, take measures to re-rate all valid credit ratings influenced by the potential conflict.

Rating analysts, employees of MFR CR as well as any other natural person whose services are placed at the disposal or under the control of MFR CR and who is directly involved in credit rating activities, and persons closely associated with them within the meaning of Article 1(2) of Directive 2004/72/EC are prohibited from soliciting or accepting money, gifts or favors from anyone with whom MFR CR does business.

If a rating analyst, an employee of MFR CR as well as any other natural person whose services are placed at the disposal or under the control of MFR CR and who is directly involved in credit rating activities, and persons closely associated with them within the meaning of Article 1(2) of Directive 2004/72/EC considers that any other such person has engaged in conduct that he/she considers being illegal, he/she is required to report such information by following the procedures included in the Whisleblowing Policy and Procedures.

An MFR CR employee who becomes involved in a personal relationship (including, for example, a personal relationship with an employee of a rated entity) that creates an actual or potential conflict of interest will be required under MFR CR's policies, procedures, and controls to disclose the relationship to the person in charge of the Compliance function or another officer of MFR CR, as appropriate.

Analysts do not provide advice to a rated entity or related third party as regulated by the Staffing Policy and Procedures.

5. Ancillary and other permissible services

MFR CR does not provide ancillary and other permissible services to its clients, limiting its activities to the issuance of credit ratings and rating outlooks.

However, MFR CR has in place procedures and mechanisms designed to identify and minimize the probability of conflicts of interest arising due to the services provided by MFR (mother company of MFR CR). Any potential or actual conflict of interest which may arise, is promptly reported (to the BoD and the Regulator), managed and eliminated.

Neither MFR CR nor any person holding, directly or indirectly, at least 5% of either the capital or voting rights of MFR CR or being otherwise in a position to exercise significant influence on the business activities of MFR CR provides consultancy or advisory services to the rated entity or a related third party regarding the corporate or legal structure, assets, liabilities or activities of that rated entity or related third party.

6. Fees charged to clients and concentration

6.1. Policy

MFR CR ensures that fees charged to its clients for the provision of credit ratings are not discriminatory and are based on actual costs. Fees charged for credit rating services shall not depend on the level of the credit rating issued by MFR CR or on any other result or outcome of the work performed.

The general framework of MFR CR's fee arrangements with rated entities is the following:

- MFR CR will make every effort to manage the potential conflict arising from the payment of fees by issuers and will ensure that MFR CR's receipt of fees from issuers does not impair the independence, objectivity, or integrity of its ratings and rating actions;
- MFR CR will not base any fees on the success of a bond issue or the issuer achieving any particular rating or other results.

6.2. Concentration in one single client

Revenues' concentration in one single client can generate a conflict of interest for MFR CR. MFR CR discloses to the public the names of the rated entities or related third parties from which it receives more than 5% of its annual revenues.

7. Roles and responsibilities

MFR CR's employees are kept responsible for identifying and managing conflicts of interest on an ongoing basis and MFR CR requires all employees to comply with this policy, rules and other applicable policies and procedures relating to the identification, documentation, escalation and management of conflicts of interest.

All employees are trained and educated to promptly disclose internally any matter that may result, or has already resulted, in a conflict of interest. Employees are carefully trained and sensitized to challenge and escalate promptly issues of concern to their line managers, supervisors, and/or Compliance function so that conflicts of interest may be appropriately reviewed and managed.

The person in charge of the Compliance function oversees compliance with this policy and applicable laws and regulations, while also supervising the design, implementation and performance of a periodic review process through which compliance with the procedures set in this policy will be thoroughly assessed.

MFR CR has established a rigorous and formal Review function responsible for periodically reviewing all aspects of its credit rating methodologies, including models and key rating assumptions, and any significant changes or modifications thereto as well as the appropriateness of those methodologies, models and key rating assumptions where they are used or intended to be used for the assessment of new financial instruments.