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# MARC

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## CODE OF CONDUCT

## **Introduction**

MARC's Code of Conduct sets forth standards of behaviour for MARC's employees regarding the ethical conduct of its business. This Code of Conduct (Code) incorporates regulatory requirements set out in the Guidelines on Registration of Credit Rating Agencies issued by the Securities Commission of Malaysia (SC) and to comply with Section 17A of Malaysian Anti-Corruption Commission (Amendment) Act 2018. It also reflects substantial adherence to the International Organisation of Securities Commission (IOSCO) Code of Conduct Fundamentals for Credit Rating Agencies (IOSCO Code) published in May 2008. Departures from provisions in the IOSCO Code are outlined in Section IV of this Code. In addition, this Code incorporates provisions from the Best Practices Framework adopted by the Association of Credit Rating Agencies in Asia ("ACRAA").

The Code of Conduct is the cornerstone of MARC's compliance program and affirms MARC's long-standing commitment to conduct its credit rating operations in a manner that is transparent and credible, maintain the objectivity, integrity and independence of its rating process in order to avoid compromising influences, and prevent misuses of confidential information. All employees of MARC ("employees") are expected to comply with this Code and other policies, procedures and guidelines that the rating agency has implemented. Failure to comply with this Code and the related policies, procedures and guidelines may result in disciplinary action, up to and including termination of employment. By adopting this Code, MARC is not stating that it can entirely eliminate improper conduct by individual employees. However, it has established procedures under its compliance program to prevent and detect violations of the Code.

The Audit and Risk Committee shall recommend to the Board of Directors to grant an exemption to a provision of the Code if the circumstances so warrant and such waiver is permitted by law. The exemption shall be subject to a reasonable satisfaction that it will not impact the interest of the public. Any waiver must be documented and may be subject to conditions as MARC in its sole discretion may impose. This Code and other policies that MARC has adopted to address conflicts of interest and misuse of non-public information as well as to ensure ethical business practices are published on its website at [www.marc.com.my](http://www.marc.com.my). However, by making this Code freely available to the public, MARC does not assume any responsibility or liability to any third party arising from or in connection with this Code.

This Code is not part of any contract with any third party, and no third party shall have any right to enforce any of its provisions. MARC in its sole discretion may revise this Code at any time to reflect changes in its ratings policies and procedures or changes in regulatory requirements and global best practices.

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## I. DEFINITION

- An **"Analyst"** is defined as employee of MARC who is involved in the provision of credit rating services, save for sub-sovereign and sovereign credit rating. The definition of analyst excludes any employee performing an analytical role in MARC's non-credit rating business units and/or subsidiaries.
- **"Confidential Information"** is any information received by MARC from an Issuer or its authorised agents in connection with the rating process in respect of which MARC has received written notice specifically indicating the proprietary and confidential nature of the information. However, the term "Confidential Information" shall not include:
  - Information that is or later becomes publicly known;
  - Information that had been substantially known by MARC prior to disclosure by the Issuer or its agents;
  - Information that is disclosed lawfully to MARC by a third party not reasonably known by MARC to be bound by a confidentiality agreement with the Issuer or otherwise prohibited from making available such information; or
  - Information developed independently by MARC without reference to Confidential Information.
- A **"Credit Rating"** is MARC's current opinion on the overall creditworthiness of a particular Issue or an Issuer's capacity to meet its financial obligations. Credit ratings typically reflect the credit quality of a specific debt issuance, and are expressed as letter grades that range from 'AAA' to 'D' for long-term ratings and from 'MARC-1' to 'D' for short-term ratings. The symbols are used to communicate MARC's opinion of the ratee's relative level of credit risk to investors and other users of credit ratings.
- An **"Employee(s)"** means any full time, contract or part time of MARC or its subsidiaries.
- An **"Issuer"** is any entity that issues a debenture, Islamic securities, private debt securities, a credit commitment or debt-like securities.
- An **"Issue"** includes debentures, Islamic securities, and private debt securities such as bonds, loan stocks and commercial papers, whether convertible into equity or not and whether redeemable or otherwise.
- **"CRA"** is the abbreviation for "credit rating agency".
- A **"Family member"** shall include spouse, parent, child (including an adopted child and step-child), brother, sister and the spouse of his or her child, brother or sister.
- An **"External member"** means any independent person who is not related to MARC, its rating holding company, if any, or its controllers, if any, and who is not an employee or director of MARC.
- An **"Internal member"** means a person who is currently an employee or director of MARC.
- The SC Guidelines refers to the Securities Commission Guidelines on Registration of Credit Rating Agencies.

## **II. WHAT ARE MARC'S CREDIT RATINGS?**

MARC's credit ratings represent opinions on the relative credit quality of an entity or individual securities or financial obligations. Ratings of individual securities or obligations are an assessment of the likelihood of non-payment or default in accordance with the rated instrument's documentation. In addition, ratings for structured, project finance and individual corporate obligations on a long-term scale consider the ranking or contractual position of an individual security or tranche relative to other rated and unrated obligations of the transaction or issuer. The ratings on individual obligations issued by a single issuer may, therefore, differ.

Credit ratings are assigned following a detailed analysis of qualitative and quantitative information believed to be relevant to the credit quality of the rated entity or obligation. The information relied on in assigning the ratings typically include public and confidentially provided information from the rated entity and its advisers and other parties. MARC's credit opinions may incorporate confidential non-public information communicated by the rated entity or its agent without specifically disclosing it in the rating rationale.

Ratings do not constitute investment, financial or other advice. Ratings are not recommendations to purchase, hold or sell a particular security or to make any other investment decision. Ratings and other opinions do not comment on the suitability of an investment for a particular investor and should not be relied on when making any investment decision. MARC does not act as an investment, financial, or other advisor to, and does not have a fiduciary relationship with, an issuer, investor, or any other person.

MARC is not obligated to perform any due diligence or independent verification of any information submitted to, or obtained by, MARC in connection with its rating and surveillance processes. MARC does not perform an audit and does not undertake to verify that the information submitted to, or obtained by, MARC is complete. Ratings are not verifiable statements of fact. The assignment of a rating to an issuer or an issue by MARC should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information.

MARC reserves the right at any time to suspend, modify, lower, raise, or withdraw a rating or place a rating on MARCWatch in accordance with its policies, guidelines and procedures.

### **III. THE PROVISIONS**

#### **1.0 QUALITY AND INTEGRITY OF THE RATING PROCESS**

##### **A. Quality of the Rating Process**

- 1.1 MARC adopts, implements, and enforces written procedures to ensure the rating opinions it disseminates are based on a thorough analysis of all information known to MARC that is relevant to its analysis according to MARC's published rating methodology. MARC's established set of transparent policies, controls and procedures are in place to ensure consistency of its rating operation as well as to maintain a fair and robust relationship with its external stakeholders. MARC's established rating policies are published on its website at [www.marc.com.my](http://www.marc.com.my).
- 1.2 MARC uses rating methodologies that are robust, rigorous and systematic, and where possible, result in ratings that can be subjected to some form of objective validation based on historical experience. MARC's rating methodologies, rating criteria and polices are reviewed regularly to ensure they are current and promote accuracy in credit analysis.
- 1.3 In assessing the creditworthiness of an issuer or issue, MARC ensures that its analysts involved in the preparation or review of any rating action use the criteria and methodologies established by MARC and apply them in a consistent manner. Where relevant, MARC will incorporate corporate governance analysis and the relevant benchmark of corporate governance practices into its rating framework to assess any impact on credit risks of a bond issue.
- 1.4 MARC's credit ratings are determined by a rating committee comprising internal and external members who meet the eligibility criteria outlined in the SC Guidelines and possess the requisite experience to assess the credits; and not by any individual analyst employed by MARC. The policy governing the conduct of the rating committee, its membership and the members' credentials are disclosed on MARC's website.
- 1.5 MARC maintains proper and complete internal records to support the credit opinions for a reasonable period of time, in accordance with applicable laws.
- 1.6 MARC ensures that adequate checks and reviews are in place to 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 MARC shall endeavor to devote sufficient resources with specific skill sets and expertise to carry out high-quality credit assessments of all debt obligations and issuers it rates. When deciding whether to rate or continue rating an issuer or issue, MARC shall assess whether it is able to devote sufficient analysts with sufficient skill sets to make a credible credit assessment, and whether its analysts will likely have access to sufficient information needed, including when the credit assessment involves a type of financial product presenting limited historical data. Although MARC undertakes no duty to audit or otherwise verify information it receives, MARC shall adopt reasonable measures such as having resources with good expertise to ensure that the information it uses in assigning its ratings is of sufficient quality to support a credible rating. In the event the rating involves a type of financial product presenting limited historical data upon which to base the rating, MARC shall make clear, in a prominent place, the limitations of the credit rating.
- 1.7-1 MARC shall establish a review function made up of one or more senior credit rating personnel with appropriate experience to review the feasibility of providing a credit rating for a type of structure that is materially different from the structure MARC currently rates;
- 1.7-2 MARC periodically perform rigorous and formal reviews on the methodologies from time to time
- 1.7-3 MARC periodically assesses whether the existing methodologies and models for determining credit ratings of structured products are appropriate when the risk characteristics of the assets underlying a structured product change materially. MARC shall only issue ratings when it has sufficient information and data.
- 1.8 MARC structures its rating teams to promote continuity, consistency and avoid bias in the rating process.

## **B. Monitoring and Updating**

- 1.9 MARC shall ensure that adequate personnel and financial resources are allocated to monitoring and updating its ratings. Except for ratings that clearly indicate they do not entail ongoing surveillance, once a rating is published, MARC shall monitor on an ongoing basis and update the rating such that any change in the issuer/issues' situation is reflected in the assigned rating on a timely and effective manner by:
- a. regularly reviewing the issuer's creditworthiness. MARC shall conduct timely and regular rating reviews of outstanding bonds and publish its rating reviews and reports on a timely and consistent basis. In this regard, MARC shall ensure that its annual rating review of a bond issue is conducted and rating report is published within a period not later than 15 months after the last rating review;

- b. initiating an immediate 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. In this respect, MARC shall also engage with the bond issuer and bond trustee, where applicable on a timely basis to ensure that it has the most current information on the bond issue;
- c. updating on a timely basis the rating, as appropriate, based on the results of such review.

Subsequent monitoring will incorporate all cumulative experience obtained. Changes in the ratings criteria and assumptions will be applied where appropriate to both the initial ratings and subsequent ratings.

- 1.9.1 MARC will ensure that each analytical team that determines the initial ratings and/or subsequent monitoring will have the requisite level of expertise and resources to perform their respective functions in a timely manner.
  - 1.9.2 MARC sets out the rating outlook and rating watch into its ratings through surveillance procedures which take into account issue-specific conditions that might warrant closer monitoring of certain credits. MARC shall set out an indicative timeframe in finalising a rating action and publishing the relevant rating reports after a bond issue is put on rating watch.
- 1.10 MARC will make available the ratings to the public, and publicly announce if it discontinues rating an issuer or obligation. Continuing publications by MARC of the discontinued rating shall 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 MARC and its employees will comply strictly with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.
- 1.12 MARC and its employees will deal fairly and honestly with issuers, investors, other market participants, and the public.
- 1.13 MARC will hold its analysts to high standards of integrity, and MARC shall not knowingly employ any individual with demonstrably compromised integrity.
- 1.14 MARC and its analysts will not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This does not preclude MARC from developing prospective assessments used in structured finance and similar transactions.
  - 1.14.1 MARC prohibits its analysts from making proposals or recommendations regarding the design of structured finance products that is being rated.

- 1.15 MARC implements policies and procedures and assign these responsibilities to an independent Compliance Officer to assure compliance with the provisions of MARC's Code of Conduct and MARC's internal policies and applicable laws and regulations. The Compliance Officer's independence is expected to be attained by ensuring this person's reporting line and compensation is independent of MARC's rating operations. The Compliance Officer shall have direct line of reporting to MARC's Audit and Compliance Committee.
- 1.16 MARC's employees are to report in writing immediately to his/her supervisor or Compliance Officer upon becoming aware that another employee or entity under common control with MARC is or has engaged in conduct that is illegal, unethical or contrary to its Code, for proper action to be taken. MARC's employees are not necessarily expected to be experts in the law. Nonetheless, employees are expected to report the activities that a reasonable person would question (reference should also be made to the Whistle Blowing Policy). Any officer who receives such a report from an employee is obligated to take appropriate action, as determined under the laws and regulations, and the rules and guidelines set forth by MARC. All reported events shall be taken seriously and investigated promptly in accordance with established policies and procedures. The investigation report shall be prepared within a stipulated time frame from the receipt of the complaint. An employee who retaliates against another employee for either of these reasons shall be subject to disciplinary action up to and including termination.
- 1.17 In order to maintain MARC's independence, objectivity, and credibility, MARC shall maintain complete editorial control at all times over rating actions and all other materials it disseminates to the public, including, but not limited to, rating definitions and criteria, reports, research updates, studies, commentaries, media releases, rating opinions, or any other information relating to its ratings. MARC shall retain sole discretion as to when any rating action and rating updates should be disseminated.

## **2.0 INDEPENDENCE, OBJECTIVITY AND MANAGEMENT OF CONFLICT OF INTEREST**

### **A. General**

- 2.1 MARC will not forbear or MARC will not refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on MARC, an issuer, an investor, or other market participants.
- 2.2 MARC and its analysts shall exercise care and professional judgment to maintain both the substance and appearance of independence and objectivity at all times. MARC and its employees are also expected to be objective, i.e. they shall be impartial, adopt an unbiased attitude and avoid conflicts of interest.

- 2.3 MARC shall ensure that the rating process is independent, i.e. free from interference in determining the scope of the rating engagement, performing the analysis and evaluation, and communicating the results. The determination of a credit rating by a rating committee shall be based only on factors known to the rating committee that are believed by it to be relevant to the credit assessment. MARC shall ensure that its rating teams are able to perform its duties free of undue intervention or influence from its shareholders and its Board of Directors.
- 2.3.1 MARC is committed to maintaining a sound governance structure, and where possible, adopts and complies with the relevant corporate governance standards as laid out in the Malaysian Code of Corporate Governance on the structure of its Board of Directors;
- 2.3.2 MARC shall ensure that the majority of Board of Directors members comprise independent non-executive directors who are professionally qualified and with relevant corporate experience.
- 2.4 MARC shall ensure that the credit rating MARC assigns to an issuer or debt security shall not be affected by the existence of or potential for a business relationship between MARC (or its affiliates) and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship. MARC shall maintain principle of integrity in seeking rating business. For a bond issue which is rated by another CRA, MARC shall not displace or replace the other CRA which is rating the bond issue, unless specifically approved by the Securities Commission of Malaysia.
- 2.5 MARC will separate its credit rating business and rating analysts from other businesses that may present a conflict of interest. MARC will ensure that any existing or future ancillary business operations, which do not necessarily present conflicts of interest with MARC's credit rating business, have in place procedures and mechanisms designed to minimise the likelihood that conflicts of interest will arise. MARC does not have any ancillary services relating to advisory, origination and structuring of securities in its current business operations. Should MARC offer this type of business in the future, MARC shall ensure that none of this service is offered to any of its rating clients by its employees or by its related corporation at all times. For the avoidance of doubt, this restriction shall not apply to rendering of consultancy services (which include amongst others, risk analytics platforms; analytics consulting and low-touch ratings product i.e. impact bond assessments and CreditMapper), provided always that these activities do not include advisory, origination and structuring of securities to be rated by MARC. To address concerns on conflict of interest, the Management shall ensure that such ancillary services are physically and legally separated.

## **B. MARC's Policies and Procedures**

- 2.6 MARC adopts written internal procedures and mechanisms to identify, and eliminate or manage and disclose as appropriate, any actual or potential conflicts of interest that may influence the opinions and analyses it makes or the judgment and analyses of the individuals it employs, who have an influence on ratings decisions. MARC shall also disclose such conflict avoidance and management measures.

- 2.7 In case of any possible conflict of interest situation, the internal rating committee member or analyst or employee concerned will disclose such conflict of interest and will not participate in any manner in formulating or arriving at a credit rating. An external rating committee member with a conflict of interest shall be excluded from the voting process. However, where a quorum is warranted in a rating committee meeting, the remaining members shall assess the severity of a conflict and determine whether the conflicting member shall be allowed to remain or be excluded from the meeting. MARC shall maintain a conflict of interest register to keep track of all conflict of interest disclosures and make the information in the register available to the users of MARC's rating reports upon request. MARC shall include a disclosure statement where there is an occurrence of a conflict of interest situation. Even if there is no conflict of interest to be disclosed, MARC shall include in its rating report that the analysts involved in the bond rating and members of its rating committee have not encountered nor are aware of any conflict of interest relating to the bond issue.
- 2.8 MARC receives compensation from issuers to enable it to perform credible credit analysis. This compensation must not influence an analyst's credit opinion or other analytical processes.
- a. where applicable, MARC will disclose if it receives material compensation from rated entities that is unrelated to its rating services;
  - b. MARC shall disclose if it receives 10% or more of its annual rating revenue from a single issuer, originator, arranger, client or subscriber. MARC shall include a specific statement in its rating reports if rating fees for a bond issue or from a group of related issuers comprise 5% percent or more of its rating revenue from the preceding year;
- MARC shall encourage structured finance issuers and originators of structured finance products to publicly disclose all relevant information regarding these products so that investors can conduct their own analyses independently of MARC.
- 2.9 MARC will not engage in any securities or derivatives trading presenting conflicts of interest with its rating activities.
- 2.10 In instances where rated entities (e.g. governments) have, or are simultaneously pursuing, oversight functions related to ratings, MARC shall use different employees to conduct its rating actions than those employees involved in its oversight issues.

**C. MARC's Analysts and Employee Independence**

- 2.11 Reporting lines for MARC's employees and their compensation arrangements has been structured to eliminate or effectively manage actual and potential conflicts of interest.
- a. MARC's analyst will not be compensated or evaluated on the basis of the amount of revenue that it derives from issuers that the analyst rates or with which the analyst regularly interacts;
  - b. MARC shall conduct formal and periodic reviews of compensation policies and practices for its 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 MARC's rating process. MARC shall also define in its procedures what it considers and does not consider ancillary businesses if relevant and the reasons behind them.
- 2.12 MARC's employees who are directly involved in the rating process shall not initiate, or participate in, discussions regarding fees or payments with any entity they rate. MARC's employees also shall not maintain accounts with brokers which are rated by MARC nor trade in securities of companies rated by MARC or their related companies.
- 2.13 No employee shall participate in or otherwise influence the determination of its rating of any particular entity or obligation if the employee:
- a. personal or family ownership of securities in the rated entity or its related entity other than ownership interests held through diversified collective investment schemes (e.g. ASB, ASN), equity investment abroad, broad market related instruments (e.g. ETF, bond funds, market index-related instruments) and REITs;
  - b. family member's business ties with the rated entity or its related entity;
  - c. a family member's key employment or membership on the board of directors of the rated or any other related entity;
  - d. analyst's recent employment (within the last six months) with the rated entity or any other related entity;
  - e. analyst or his family member's business relationship with the rated entity that appears to be other than "arm's length";
  - f. analyst's acceptance of any gift and/or other forms of benefit exceeding RM100 in value from the rated entity that could reasonably appear to influence his/her independence of judgement.
- 2.14 In accordance with MARC's Personal Investment and Trading of Securities Policy, analysts and anyone involved in the rating process (or their family members) except for external members shall 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. External rating committee members and their family members, are required to observe a "blackout period" during which no transactions involving the purchase or sales of the securities of a rated entity or its related entities may be conducted.

- 2.15 MARC's rating employees are prohibited from soliciting money, gifts or favors from anyone with whom it does business and shall be prohibited from accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value. Payment, soliciting and acceptances of bribes in any form direct or indirect are unacceptable practices and are prohibited.
- 2.16 MARC analysts are required to disclose to the Compliance Officer any personal relationship that creates the potential for any real or apparent conflict of interest (including, e.g. any personal relationship with an employee i.e. spouse, parent, child, sibling of a rated entity or agent of such entity within his or her area of analytic responsibility), and shall disclose such relationship to his/her Sector Manager or Portfolio Head or Group Chief Executive Officer (GCEO), as appropriate (reference should also be made to the Policy on Conflict of Interest for Analysts). Any conflict of interest that arises after an analyst's involvement in the initial rating should be disclosed immediately for the rating supervisor to make changes to the composition of the rating team.
- 2.17 MARC shall establish policies and procedures for reviewing the past work of analysts that leave the employment of MARC and join an issuer its analyst has been involved in rating, or a financial firm with which the analyst has had significant dealings as part of his or her duties at the company

#### **D. Conflicts of Interest**

- 2.18 Conflicts of interest can arise where an employee's ability to perform his/her duties effectively and impartially is, or is potentially, impaired by an outside role, relationship or activity. For example, having relationships with goods and service providers employed by MARC, owning certain shareholdings, or even excessive voluntary community activities.
- 2.19 Employees, by reason of necessary business relationships with clients or suppliers in the regular course of work, are likely to be put in positions where conflicts of interest could arise or gifts be offered. The overall governing principle is that employees and immediate family member must avoid situations in which their personal interests may conflict with the interests of MARC or its clients.
- 2.20 Gifts, Entertainment, Corporate Hospitality and Dealing with Public Officials
- a) MARC's policy and practice encourage the use of good judgment, discretion, and moderation when giving or accepting gifts or entertainment in business settings. Gift giving and entertainment practices may vary in different cultures; however, any gifts and entertainment given or received must be in compliance with the law, must not violate the giver's and/or receiver's policies on the matter, and be consistent with local custom and practice. We do not solicit gifts, entertainment, or favors of any value from persons or firms with which MARC actually or potentially does business nor do we act in a manner that would place any vendor or customer in a position where he or she may feel obligated to make a gift, provide entertainment, or provide personal favors to do business or continue to do business with MARC.
- b) While it is not practicable to spell out all circumstances which may give rise to a violation of this conflict of interest policy, the following are regarded as guidelines for compliance:

Employees and their immediate families are not permitted to accept gifts from clients and to accept costly entertainment or any form of benefit under a will

or trust made by clients where the gifts or benefits result from a relationship with the client arising in the ordinary course of duties in MARC or as a result of services rendered by the employee as a representative of the Company. Gift and/or other forms of benefit with a minimum estimated value of RM100 may be deemed as acceptable gifts under limited circumstances as spelt out in MARC's Anti-Bribery and Corruption Procedures.

However, an employee may accept any normal business entertainment e.g. business lunch or token gifts of no commercial value. If the acceptance of such gifts would not place an employee in a compromising position and if refusing the gifts would jeopardise the client relationship.

- c) Providing gift or hospitality to public officials members is generally considered as a 'red flag' situation.

In the event where an employee is required to give a gift or offer hospitality to a public official, proper care and judgment is to be exercised to ensure the gift or hospitality does not create a conflict of interest between the employee and the official, and is not perceived as being used for corruption. Any request to provide gift and hospitality should require the GCEO's approval.

- d) Under no circumstances should gifts in the form of cash, bonds, negotiable securities, personal loans guarantee or other securities in which some benefits are derived, airline tickets or use of vacation property be accepted.

#### 2.21 Corporate Social Responsibility, Sponsorships and Donations

Corporate social responsibility, sponsorship and donations made by MARC to community projects or charities need to be made in good faith and in compliance with the applicable MARC's policies and procedures, as well as MARC's Anti-Bribery and Corruption Policy and MARC's Anti-Bribery Corruption Procedures.

Ensure that the contributions are not used as a scheme to conceal bribery. No donation can be offered or made without the prior approval of the GCEO.

#### 2.22 Political Contribution

MARC does not make charitable donations or contributions to political parties. Whilst employees are permitted to make personal political contributions, MARC will not make any reimbursement for these personal political contributions back to its employees.

#### 2.23 Facilitation Payment

MARC does not make, and will not accept, facilitation payments of any kind. Any individual with any suspicions, concerns or queries regarding a payment made on our behalf or improper business practices, he/she should raise these to Compliance, Governance and Risk Management Department in writing. However, there could arise circumstances in which the Directors or Employees have no alternative but to make a facilitation payment in order to protect themselves from injury, loss of life or liberty.

#### 2.24 Dealing with Third Parties

All third parties, including agents, suppliers and joint venture partners should be made aware of this Policy and the arrangements with them shall be subject to clear contractual terms, including specific provisions requiring them to comply with minimum standards and procedures relating to bribery and corruption.

2.25 Employees are required to act with integrity at all times and be seen to be independent in all assignments undertaken. No interests, whether real or potential, are allowed to detract an employee from being objective. Employees are required to avoid any conflicts between their interests and that of MARC when dealing with contractors and all other third parties.

2.26 It is also a conflict of interest for an employee, during or subsequent to his/her employment and without proper authority, to give or make available to anyone, or use for his/her own benefit, information of a confidential nature derived from his/her employment.

2.27 In line with best practices, Club MARC shall not in practice solicit for funds from clients or any external parties.

#### **E. Misuse of Position**

2.28 Employees must not use MARC's name or facilities for personal advantage in political, investment or retail purchasing transactions, or in similar types of activities.

2.29 Employees must not use their connections with the Company to borrow from or become indebted to clients or prospective clients. The use of position to obtain preferential treatment, such as in purchasing goods, shares or other securities, is prohibited. Employees must not use the Company's facilities and influence for speculating or trading.

#### **F. Outside Directorship and Employment**

2.30 Any MARC employee who has been invited to serve on the board of directors or committee of any company outside MARC may only do so with the approval of the GCEO of MARC. Employees who wish to take equity participation in any company in the promotion in which they have been involved in their private and personal capacity can only do so with the prior approval of MARC.

2.31 Employees shall not be gainfully employed or involved in any outside business inconsistent with the faithful discharge of their duties. Under special circumstances, approval from the GCEO shall be required for any employee who wishes to take up any external employment. Employees may accept positions in voluntary or charitable organisations provided that the involvement shall not interfere with their jobs and enhance the name of MARC. Such appointments will require the GCEO's approval.

- 2.32 It shall be understood that the employees will withdraw from the positions at such time MARC feels it to be appropriate such as where the employees are unable to perform their jobs in a completely satisfactory manner. The amount of time devoted to the activities shall not interfere with normal duties. Employees involved shall abstain from making decisions on the affairs where MARC and the company enter into transactions. Employees involved must avoid any relationship which involves conflict of interest between MARC and the company.

### **G. Insider Trading and Inside Information**

- 2.33 Insider trading refers to trading in the securities market while employees are in possession of inside information. Inside information is the material non-public information about a company's activities. Insider trading also refers to trading on inside information by "outsiders" as usually the source of information comes from inside.
- 2.34 Insider trading may also refer to trading by insiders and outsiders on the basis of material non-public information which come from sources outside the issuer such as knowledge that someone is about to make an offer for a company.
- 2.35 MARC prohibits insider trading by its employees. Employees are also prohibited from using and disseminating inside information.
- 2.36 Use of information in all circumstances is restricted to that which is absolutely necessary for legitimate and proper business purposes. It is MARC's policy that any information not generally available to the public is treated with utmost confidence and is never used by employees in connection with the sale or purchase of securities.
- 2.37 The use of privileged information about securities for personal gain or for the gain of others is illegal. All employees are required to comply with MARC's internal personal investment and trading of securities policy.

## **3.0 RESPONSIBILITIES TO INVESTORS AND ISSUERS**

### **A. Transparency and Timeliness of Disclosures**

- 3.1 MARC shall distribute in a timely manner its ratings decisions regarding the entities and securities it rates. MARC shall ensure timely disclosure of all rating opinions and adequately publish all information to support its rating opinions which include, but are not limited to, assumptions and rationale of its opinion. MARC shall ensure that its rating reports for initial ratings are published as soon as the ratings have been finalised, or prior to the issuance of bonds that are being rated. MARC shall publish all information and documents required under the SC's Guidelines on its website and ensure that the information and documents are freely and easily accessible by the public with the exception of rating rationale reports.

- 3.2 MARC shall publicly disclose its policies for distributing ratings, reports and updates. MARC's rating reports shall contain all pertinent information with sufficient analytical depth and provide current and critical information on the bond issue and issuer as well as critical rating factors considered – both quantitative and qualitative. Where relevant, MARC's rating reports shall include disclosure of any benchmark used, any sensitivity analyses performed and their results, comparative analyses made with other industries or companies and disclosure of any credit enhancements.
- 3.3 MARC shall indicate in respect of its ratings when the rating was last updated and indicate the principal methodology or methodology version that was used in determining the rating and where a description of that methodology can be found. In the event that the rating is based on more than one methodology, or where a review of only the principal methodology might cause investors to overlook other important aspects of the rating, MARC would explain this fact in the ratings announcement, and indicate where a discussion of how the different methodologies and other important aspects factored into the rating decision.
- 3.4 MARC shall disclose to the public, except for "private ratings", 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 MARC shall 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 MARC. This information will include (but not be limited to) the meaning of each rating category and the definition of default, and the time horizon MARC used when making a rating decision.
- a. where MARC rates a structured finance product, it will provide investors and/or subscribers with the information on the sensitivity of the modeled cash-flow to changes in key variables.
  - b. MARC uses the same rating scale and symbols for structured finance products as well as traditional corporate bonds. We believe that our rating scale and symbols provide a common yardstick for the evaluation and comparison of the relative credit risks among rated issuers and issues.
  - c. assist investors in developing a greater understanding of what a credit rating is, and the limits to which credit ratings can be put to use vis-à-vis a particular type of financial product that MARC rates. It will clearly be indicated the attributes and limitations of each credit opinion, and the limits to which the company verifies information provided to it by the issuer or originator of a rated security.
- 3.6 MARC shall explain in its press releases and reports the key elements underlying the rating opinion when issuing or revising a rating.

- 3.7 MARC shall 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 it wishes to be made aware of in order to produce an accurate rating. MARC will duly evaluate the response. Where in particular circumstances, MARC has not informed the issuer prior to issuing or revising a rating, it shall inform the issuer as soon as practical thereafter and, generally, shall explain the reason for the delay. Where feasible and appropriate, MARC shall do so prior to issuing or revising a rating.
- 3.7.1 In ensuring accountability of its rating opinions and promoting investor activism, MARC shall arrange a robust and effective communication channel, either in the form of briefing or conference call, to explain and discuss its rating actions with the users, subscribers or any stakeholders of its rating services. Such communication shall be conducted by the chief rating officer (where applicable), lead analysts and analysts of MARC as soon as practicable upon request from more than one rating user, and its subscribers or bond investors have been duly informed of the communication. Otherwise, the communication should be conducted either on a regular basis or on immediate basis which is deemed proper by CRAs.
- 3.8 In order to promote transparency and to enable the market to best judge the performance of the ratings, MARC, where possible, shall publish sufficient information about the historical default rates of its rating categories and whether the default rates of these categories have changed over time, so that interested parties can understand the historical performance of each category and if and how rating categories have changed, and be able to draw quality comparisons among ratings given by different rating agency(ies). If the nature of the rating or other circumstances makes a historical default rate inappropriate, statistically invalid, or otherwise likely to mislead the users of the rating, MARC shall explain this. MARC will also ensure that this information will include verifiable, quantifiable historical information about the performance of its rating opinions organised and structured, and, where possible, standardised in such a way to assist investors in drawing performance comparisons between different Credit Rating Agencies.
- 3.8.1 MARC shall clearly disclose its definition of default in a public domain, that its ratings assess the likelihood of timely payment of debt obligations. In addition, a list of bonds downgraded to default should be disclosed and published by MARC on its website on an annual basis based on the format prescribed in SC's Guidelines. A historical record of this default list (at least for the past five years) shall also be made available on the website.
- 3.8.2 To ensure completeness of the default probability statistics, a bond rating shall be withdrawn by MARC only after it has assigned the latest rating action which includes downgrading the rating to default. Other withdrawal and suspension of rating shall be disclosed in MARC's withdrawal and suspension policy.

- 3.8.3 In order to promote transparency and to enable the market to best judge the average annual performance of the ratings, MARC shall publish sufficient information about the historical default rates of MARC rating categories and whether the default rates of these categories have changed over time, so that interested parties can understand the historical performance of each category and if and how rating categories have changed, and be able to draw quality comparisons among ratings given by different CRAs. The definitions and computation methods for the default rates stated in the default studies shall also be provided in the studies. The meaning of these default rates shall be clearly explained to the interested parties.
- 3.9 For each rating, MARC shall disclose whether the issuer participated in the rating process. Each rating not initiated at the request of the issuer shall be identified as such. MARC shall also disclose its policies and procedures regarding unsolicited ratings.
- 3.10 Users of credit ratings rely on an existing awareness of MARC's methodologies, practices, procedures and processes. Therefore, MARC shall fully and publicly disclose any material modification to its methodologies and significant practices, procedures, and processes. Where feasible and appropriate, disclosure of such material modifications shall be made prior to their going into effect. MARC shall carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.

#### **B. Treatment of Confidential Information**

- 3.11 MARC and its employees shall maintain the confidentiality of the information obtained from its clients in accordance with the confidentiality provisions or agreements entered into with its clients and shall not disclose the same to any other person, except where such disclosure is permitted by or under any law for the time being in force and the disclosure is made to the Securities Commission. Unless otherwise permitted by an agreement with the issuer, MARC and its employees shall refrain from disclosing Confidential Information in press releases; through research conferences; and conversations with investors, other issuers, or any other persons. Notwithstanding the foregoing, MARC shall not be restricted from:
- a. publishing any rating action or other opinion regarding a particular issuer or issue that incorporates Confidential Information without specifically disclosing it; or
  - b. using third-party contractors or agents bound by appropriate confidentiality obligations to assist in any aspect of the rating process or related business activities.
- 3.12 MARC shall use Confidential Information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.
- 3.13 MARC employees shall take all reasonable measures to protect all property and records belonging to or in possession of MARC from fraud, theft, or misuse.

- 3.14 MARC's employees shall not engage in transactions in securities when they possess Confidential Information concerning the issuer of such Security.
- 3.15 Employees shall observe the internal securities-trading policies maintained by MARC, and are required to periodically certify their compliance as required by such policies.
- 3.16 Employees shall not disclose any (i) of MARC's ratings-related non-public information, or (ii) non-public information about rating actions or possible future rating actions, except in the case of clause (ii) to related issuers and their designated agents.
- 3.17 MARC's employees who are in possession of Confidential Information shall not share the information with other employees except with the prior written consent of the GCEO or on a need-to-know basis.
- 3.18 MARC's employees shall not use or share Confidential Information for the purpose of trading securities, or for any other purpose except the conduct of MARC's business.
- 3.19 Upon cessation of employment, employees shall return all MARC's properties including documents in their possession and control.
- 3.20 MARC shall establish, maintain and implement written policies, controls and procedures to prevent the misuse of non-public information and to take steps to monitor if these procedures are followed.

#### **4 DISCLOSURE OF THE CODE OF CONDUCT AND COMMUNICATION WITH MARKET PARTICIPANTS**

- 4.1 MARC shall disclose to the public its code of conduct, which implements as far as possible the provisions of the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies in order to achieve the objectives contained in the IOSCO provisions. However, in the event this code of conduct deviates from the IOSCO provisions, MARC shall explain where and why these deviations exist, and how any deviations nonetheless achieve the objectives contained in the IOSCO provisions and fully disclose them on its website. MARC shall enforce its code of conduct and shall disclose on a timely basis any changes to its code of conduct or how it is implemented and enforced.
- 4.2 The GCEO or the delegated officers in MARC shall be responsible for communicating with market participants and the public about any questions, concerns or complaints that ratings services may receive. MARC's Compliance Officer is responsible for receiving complaints that MARC may receive regarding the Code of Conduct and any other arising issues.
- 4.3 MARC shall publish on its public website, [www.marc.com.my](http://www.marc.com.my): (1) the Code, (2) a description of the methodologies it uses, and (3) information about MARC's performance studies on its ratings.

#### **IV. MARC'S STATEMENT OF COMPLIANCE WITH IOSCO CODE**

This Statement of Compliance with the IOSCO CRA Code (IOSCO Code) is made in accordance with the SC's Guidelines on registration of Credit Rating Agencies, which requires credit rating agencies to make a statement about their state of compliance and non-compliance with the IOSCO CRA Code upon application for registration of credit rating agency to the SC.

MARC fully supports the essential purpose of the IOSCO Code, which is to promote investor protection by safeguarding the integrity of the rating process. MARC believes that the Code of Conduct is consistent with the IOSCO Code and appropriately implements IOSCO's Statement of Principles Regarding the Activities of Credit Rating Agencies published in September 2003.

MARC's Code of Conduct does not entirely incorporate all principles set out in the IOSCO Code due to unique local practices. Nonetheless, we genuinely consider such deviations from the current IOSCO Code will not compromise investors' interests as various stringent measures have been applied to ascertain transparency and independence in our credit-rating process. The material deviations of MARC's Code of Conduct from IOSCO CRA Code are laid out below:

##### **Clause 1.7-2 of IOSCO CRA Code**

Clause 1.7-2 recommends that, where possible, the review function responsible for periodically reviewing the methodologies and models should be independent of the business lines that are responsible for the rating of issuers and issues.

MARC employs the same rating senior personnel who are also involved in the rating process to carry out the review function. MARC believes that its multi-layered rating process is currently sufficient to mitigate potential conflict of interest.

##### **Clause 1.9-1 of IOSCO CRA Code**

Clause 1.9-1 requires that if the credit rating agencies uses separate analytical teams to determine initial ratings and for subsequent monitoring of structured finance products, each team should have the requisite level of expertise and resources to perform their respective functions in a timely manner.

In consideration of Malaysia's current structured finance market size and stage of development, MARC practices rotation of analysts on an individual basis rather than changing an entire team to determine initial ratings and subsequent monitoring on a rated subject. It has always been MARC's top priority to ensure that analysts are rotated as much as our capacity and resources permit to avoid potential conflict of interest.

##### **Clause 2.8c of IOSCO CRA Code**

Clause 2.8c requires the CRA to disclose in its announcements whether the issuer of a structured finance product has publicly disclosed all relevant information about the product being rated or if such information remains non-public.

While MARC agrees with IOSCO's guiding principle of enhancing transparency, MARC does not believe it should be responsible for disclosing whether an issuer has publicly disclosed all relevant information on the product being rated, or if such information remains non-public. In addition, this requirement could place a burden on MARC to conduct due diligence on the accuracy of the issuer's statement.

**Clause 3.5a of IOSCO CRA Code**

Clause 3.5a requires credit rating agencies to provide investors and/or subscribers (depending on the CRA's business model) with sufficient information about its loss and cash flow analysis and disclose the degree to which it analyses how sensitive a rating of a structured finance product is to changes in the CRA's underlying rating assumptions when a credit rating agency rates a structured finance product.

MARC believes that base cash flow models and assumptions for a particular structured finance transaction should be provided by issuers or arrangers. With such information, investors and subscribers would be able to construct their own cash flow models with first-hand information. MARC is currently not prepared to extend existing proprietary models due to liability as well as intellectual property rights considerations. MARC, however, does provide information on the sensitivity of our modeled cash flow to changes in key variables.

**Clause 3.5b of IOSCO CRA Code**

The Clause 3.5b requires credit rating agencies to differentiate the rating of structured finance products from traditional corporate bond ratings, preferably via different rating symbols, and to disclose how such differentiation functions.

MARC uses the same rating scale and symbols for structured finance products as well as traditional corporate bonds. The reason being is that our ratings are not intended to convey specific default probabilities; rather, they reflect ordinal rankings of the credit risk of entities and obligations. Hence, an AAA rating for a traditional corporate bond or a structured product is expected to have a very low default risk on an absolute basis. Our view is the differentiation of the rating scales serves no useful purpose and introduces the notion of 'qualified' ratings, i.e. the risk profile of AAA rating for structured finance is somewhat different than that of a similarly rated corporate debt rating and merits more caution on the part of the investor. This goes against MARC's articulated aim of facilitating comparability across a range of rated instruments.