
MARC

MARC RATINGS BERHAD

POLICY ON CONFLICT OF INTEREST FOR ANALYSTS

Version 1.0

1 Introduction

The purpose of the Policy on Conflict of Interest (the Policy) is to define the management of potential conflicts of interest on the part of analysts. Purposeful compliance with this policy will avoid both actual bias and appearance of bias and ensure that Conflict of Interest (COI) disclosures are made in a manner that will allow users of MARC Ratings Berhad's (MRB) credit ratings to make an informed decision about the existence and the impact of conflicts of interest.

The policy is designed to promote compliance with the COI provisions in the Securities Commission's (SC) Guidelines on the Registration of Credit Rating Agencies (SC's Guidelines) and MARC's Code of Conduct.

2 Conflicts of Interest

In the context of the rating process, a 'conflict of interest' exists where it appears that an analyst's performance of his/her duties and responsibilities as analyst may be improperly influenced by competing responsibilities or interests. Under these policy, any real or perceived potential competing interests or compromising influences – financial, personal, or other situations that might raise the question of bias have to be disclosed.

The consequences of acting with an undisclosed conflict of interest can be severe for both MRB and the individual. This can result in a breach of the SC's Guidelines and regulatory sanctions. In addition, serious consequences could also result from a proven claim in contract or tort. At an individual level, this could result in disciplinary action.

3 Responsibilities of Analysts

Analysts are responsible for:

- (i) being aware of their obligation to avoid, where possible, conflicts of interest and manage those conflicts of interest that cannot be avoided;
- (ii) assessing potential conflicts of interest that could affect the rating process for both new and existing rating mandates; and
- (iii) formally disclosing all conflicts of interest and reportable interests they may have according to the procedures set out in this Policy and/or pursuant to MARC's Code of Conduct. Reportable interests relating to parents, child or sibling of the are to be disclosed on a 'best of knowledge' basis. The qualifier however, shall not be extended to the spouses of the analysts.

4 Identifying Conflicts of Interest

4.1. Definitions

For the purpose of this Policy, an “Analyst” is defined as employee of MRB 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 MRB's non-credit rating business units and/or subsidiaries.

“Family member” has the meaning ascribed to it in the SC’s Guidelines on the Registration of Credit Rating Agencies and includes (i) a spouse, (ii) parent, and (iii) child (including adopted or stepchild) or sibling of the individual or his/her spouse.

“Immediate family” is defined to include an individual’s spouse, parents, children and siblings.

“Key employment” means an executive officer (e.g. president, chief executive officer, chief operating officer, chief financial officer), Treasurer or a role that regularly interfaces with credit rating agencies.

“Related entity” is deemed to be related to another entity if the entity is the immediate holding/parent or immediate subsidiary of the other.

“Security” means any tradable securities of companies that includes but not limited to shares, bonds, warrants, options and other similar instruments. This definition does not cover holdings in 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.

4.2. Conflicts of Interest

An analyst should not participate in the rating process where he or any of his family members has interest in the rated entity or any other related entity. The following list provides some examples of the type of situations that may give rise to conflicts of interest. Situations whether listed below or not (the list is not exhaustive) that have the appearance of, potential for, or involve actual conflicts of interest should be disclosed.

- 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.

5 Declaring Conflicts of Interest

5.1 Responsibility of Risk Management

For an effective risk management, MARC Group has established the risk organisational structure vide its Risk Management Policy and Framework. Conflict of interest on the part of Analyst can be mitigated or prevented when it is addressed in a rigorous and transparent manner. MRB, being the subsidiary of MARC Group who assumes its own risk is the first line of defence in the risk management and mitigation processes. This shall also provide the check and balance of any potential conflict before it is escalated to the next level.

5.2 Requirement for Declaration by Analysts

- 5.2.1 complete a conflict of interest form, declaring any potential conflict of interest prior to undertaking a new issue rating assignment or a review of an existing rating;
- 5.2.2 bring to the attention of the GCEO and CGRM in writing immediately of any actual, potential or apparent conflicts of interest that may impact his ability to undertake the rating and monitoring process; and to ensure that conflict is removed;
- 5.2.3 provide the quarterly 'Declaration of Conflict of Interest by Rating Analyst Who is Involved in the Rating Process' to CGRM within 7 working days after end of each quarter and to update CGRM if there is any change;

6 Divestment

6.1 New Hire /Transfer or Reassignment of Staff

In the event of an analyst and/or his family members holding any securities which may cause conflict of interest, the securities must be divested within seven (7) days of commencing employment or transfer or reassignment.

6.2 Other Conflicted Analyst

For paragraph 5.2.2., should the conflict involves securities holding, CGRM will revert in writing on the appropriate action, which may include instruction to dispose the securities within seven (7) trading days.

7. Enforcement and Disciplinary Action

Failure to disclose conflicts of interest in an appropriate and timely manner or failure to comply with procedures to resolve conflicts of interest as recommended by CGRM Department may result in disciplinary action or sanctions. The Audit and Risk Committee is charged with the responsibility to consider alleged violations of the disclosure requirements and other provisions of these guidelines, to investigate complaints of such violations, and to recommend appropriate sanctions.