
MARC

MARC RATINGS BERHAD

POLICY ON CONFLICT OF INTEREST FOR RATING COMMITTEE

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DOCUMENT REVIEW HISTORY

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1.0	1 February 2020	MARC Ratings Bhd	New policy created Reviewed by CGRM
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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 rating committee members. Purposeful compliance with this policy will avoid both actual bias and appearance of bias and ensure that Conflict of Interest (COI) disclosures are made and disclosed in a manner that will allow users of MARC Ratings Berhad's ("MARC Ratings") 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 of 10 January 2023 and MARC's Code of Conduct and Ethics.

2. Conflicts of Interest

In the context of the rating process, a 'conflict of interest' exists where it appears that the performance of his/her duties and responsibilities as a Rating Committee (RC) member's professional judgement may be improperly influenced by competing responsibilities or interests. Under these guidelines, 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 MARC Ratings and the individual. This can result in a breach of the SC Guidelines and regulatory sanctions.

3. Responsibilities of Rating Committee Members

3.1 All RC members 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 RC members are to be disclosed on a 'best of knowledge' basis. The qualifier, however, shall not be extended to the spouses of the RC members.

4. Identifying Conflicts of Interest

4.1. Definitions

"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.

"Key employment" means president, chief executive officer, chief operating officer, chief financial officer, Treasurer or a role that regularly interfaces with credit rating agencies (new)

A "significant" financial interest refers to an equity interest that when aggregated for the RC member and his family member(s) represents 5% or more ownership interest in the entity concerned.

A "non-significant" financial interest refers to an equity interest that when aggregated for the RC member and his/her family member(s) does not represent more than 5% ownership interest in the entity concerned.

"Related entity" is deemed to be related to another entity if the entity is the immediate holding/parent or 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 at the Rating Committee Level

MARC recognises that conflicts of interest on the part of non-employees or external RC members are not always avoidable and it would be impractical to embrace a general policy which would prevent participation in RC proceedings by individuals having associations which may represent conflicts of interest. Where a potential COI has been identified and the RC meeting proceeds with the conflicted member's participation, the potential COI should be documented in a COI Register and minutes of meetings. A summary disclosure of the potential COI should then be made in the rating report concerned.

4.3. Levels of Conflict of Interest

In addition to disclosing the COI, MARC Ratings recognises that it is beneficial to identify and categorise various levels of conflict at the RC level to determine the degree of significance of the conflict. This process ensures all conflicts of interest are not merely identified and disclosed but also allows 'major' potential conflicts of interest to be differentiated from 'minor' potential conflicts of interest so that they can be addressed in a rigorous and transparent manner.

Level 1 – major significance

A Level 1 COI may arise as a result of:

- a) personal or significant family members ownership of securities in the rated entity or related entity, other than ownership interests held through diversified collective investment schemes;
- b) RC 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 entity or its related entity;
- d) RC's member substantive involvement in direct or indirect holding of investments of a rated entity;
- e) RC member's current or recently concluded employment (within the last six months) at the entity whose rating is being deliberated, including current or prior involvement as a consultant or advisor; and
- f) RC member's current or recently concluded membership (within the last two years) on the board of directors of the entity whose rating is being deliberated.

Internal RC members with a Level 1 COI should not participate in the RC proceedings where the aforementioned associations exist and shall leave the meeting when the rating concerned is being discussed.

Upon appropriate disclosure of the Level 1 COI by external RC members, it shall be the responsibility of the RC to determine whether such potential COI warrants i) exclusion from the deliberations, or ii) abstention from voting, or iii) exclusion from the committee proceedings, under all of the attendant circumstances.

The external member with a Level 1 conflict may be requested to remain in the meeting if his/her attendance is required to achieve the quorum for the rating committee meeting. The COI will be recorded appropriately in the minutes of the meeting and in a secure register.

In some cases, an individual who is a member of the board of directors of an entity which is a related entity with the rating under deliberation may not be regarded as having a Level 1 COI, e.g. securitisation financing transaction by a special purpose vehicle. For such cases, it will depend on the subject of the rating and shall be determined by the RC member who has no interest in the particular proceedings.

Level 2 – medium significance

A Level 2 COI may arise as a result of:

- a) non-significant ownership by the RC member and/or family members in the rated or its related entity;
- b) RC member's interest arising solely by reason of affiliation through an advisor-client relationship with an institutional investment fund which has ownership of securities in the rated entity or its related entity;
- c) RC member's interest arising solely by reason of ownership in an investment management services provider which has ownership of securities in the rated entity or its related entity;

- d) RC member's interest arising solely by reason of ownership in a research firm or investment management entity that issues research and investment recommendations on the rated entity or its related entity;

An internal RC member with a Level 2 COI does not have to leave the meeting when the rating concerned is being discussed but will not have voting rights.

Level 2 COI must be advised to the RC which will note and monitor the ongoing relevance of these conflicts. They will also be recorded appropriately in the minutes of meeting and in the COI Register. These conflicts will be monitored by the Compliance, Governance, Legal and Risk Management Department (CGLRM).

Level 3 – minor significance

Level 3 COI generally is not so significant that they could cast doubt on an RC member's ability to act impartially and give their unbiased consideration to the matter at hand. A Level 3 COI conflict must be advised to the RC. An example of a Level 3 COI is non-direct personal or family ownership of a non-significant amount of securities in the rated entity or its related entity.

Where a member has more than one level of potential or actual conflicts of interest for the entity whose rating is being deliberated, the higher degree of significance shall be used to determine the level of the conflict.

5. Declaring Conflicts of Interest

5.1. Rating Committee members shall:

- 5.1.1. assess whether he has an actual, reasonably perceived or potential COI arising from any current or previous personal, professional or financial relationship or association of any significance with a potential rating or its entity;
- 5.1.2. bring to the attention of the RC Secretary any actual, potential or apparent conflicts of interest that may impact his/her ability to participate in the rating deliberation concerned;
- 5.1.3. disclose the reportable interest at the RC meeting to determine the significance of the conflict and enable an adequately informed decision to be made by the RC on the extent to which that member may be involved in discussion or decisions of the rating concerned;
- 5.1.4. take all reasonable steps to prevent any identified potential COI from becoming an actual COI; and
- 5.1.5. provide updated information to the RC Secretary promptly if there is a significant change to his/her or their immediate family's interests as they become aware of those changes.

6. Register of Interests

The COI register is maintained by MARC's Compliance Officer under the CGLRM. This information will be reviewed half yearly by the CGLRM to ensure the information is accurate and complete. The information in the register is open to the public for inspection upon request, subject to the limitations of the Personal Data Protection Act 2010. Any individual who wishes to inspect an entry in the COI register must apply in writing to MARC's Compliance Officer, who must record who has been given access and inform the person(s) whose COI disclosure had been inspected.

7. Review and Amendments

7.1 MARC Ratings reserves the right to amend, update, vary, revise or replace this Policy or any part of it from time to time to ensure full compliance.

7.2 The Policy will be reviewed and updated at least once every 3 years or as and when necessary