

code of conduct on credit rating

Note: modeFinance adheres to the “code of conduct fundamentals for credit rating agencies” published by IOSCO, with reference to the corporate ratings activities as defined by EU Regulation 1060/2009 on Credit Rating Agencies.

The Code of Conduct of modeFinance presents the following deviations from the IOSCO version: all references, terms, concepts regarding structured finance credit ratings (eg the terms of “obligor”, “originator”, “underwriter”, “arranger”) or preliminary ratings or solicited credit ratings were discarded as currently modeFinance issues unsolicited corporate (issuer) credit ratings only.

1. Quality and Integrity of the Credit Rating Process

A. Quality of the Credit Rating Process

- 1) *modeFinance establishes, maintains, documents and enforces a credit rating methodology for each class of entity or obligation for which modeFinance issues credit ratings. Each credit rating methodology should be rigorous, capable of being applied consistently and, where possible, result in credit ratings that can be subjected to some form of objective validation based on historical experience.*
- 2) *Credit ratings should reflect all information known and believed to be relevant to modeFinance, consistent with the applicable credit rating methodology that is in effect. Therefore, modeFinance should establish, maintain, document and enforce policies, procedures and controls to ensure that the credit ratings and related reports it disseminates are based on a thorough analysis of all such information.*
- 3) *modeFinance should adopt reasonable measures designed to ensure that it has the appropriate knowledge and expertise, and that the information it uses in determining credit ratings is of sufficient quality and obtained from reliable sources to support a high quality credit rating.*
- 4) *modeFinance should avoid issuing credit ratings for entities or obligations for which it does not have appropriate information, knowledge, and expertise.*
- 5) *In assessing creditworthiness, analysts involved in the credit rating action should use the credit rating methodology established by modeFinance for the type of entity or obligation that is subject to the credit rating action. The credit rating methodology should be applied in a manner that is consistent across all entities or obligations for which that methodology is used.*
- 6) *modeFinance defines the meaning of each category in its rating scales and apply those categories consistently across all classes of rated entities and obligations to which a given rating scale applies.*
- 7) *Credit ratings are assigned by modeFinance as an entity (not by an analyst or other employee of modeFinance).*
- 8) *modeFinance should assign analysts who, individually or collectively (particularly where credit rating committees are used), have appropriate knowledge and experience for assessing the creditworthiness of the type of entity or obligation being rated.*
- 9) *modeFinance should maintain internal records that are accurate and sufficiently detailed and comprehensive to reconstruct the credit rating process for a given credit rating action. The records should be retained for as long as necessary to promote the integrity of modeFinance credit rating process, including to permit internal audit, compliance, and quality control functions to review past credit rating actions in order to carry out the responsibilities of those function. Further, modeFinance should establish, maintain, document, and enforce policies, procedures and controls designed to ensure that its employees comply with modeFinance internal record maintenance, retention, and disposition requirements and with applicable laws and regulations governing the maintenance, retention and disposition of modeFinance records.*
- 10) *modeFinance should establish, maintain, document and enforce policies, procedures, and controls designed to avoid issuing credit ratings, analyses or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of a rated entity or obligation.*
- 11) *modeFinance ensures that it has and devotes sufficient resources to carry out high quality credit ratings. When deciding whether to issue a credit rating for an entity or obligation, modeFinance assesses whether it is able to devote a sufficient number of analysts with the skill sets to determine high quality credit ratings, and whether the analysts will have access to sufficient information in order to determine a high quality credit rating.*
- 12) *modeFinance should establish and maintain a review function made up of one or more senior managers with appropriate experience to review the feasibility of providing a credit rating for a type of entity or obligation that is materially different from the entities or obligations modeFinance currently rates.*
- 13) *modeFinance should establish and maintain a review function made up of one or more senior managers responsible for conducting a rigorous, formal and periodic review, on a regular basis pursuant to an established timeframe, of all aspects of modeFinance credit rating methodologies (including models and key assumptions) and significant changes to the credit rating methodologies. Where feasible and appropriate for the size and scope of its*

credit rating business, this function should be independent of the employees who are principally responsible for determining credit ratings.

- 14) *modeFinance, in selecting the analyst or analysts who will participate in determining a credit rating, should seek to promote continuity but also to avoid bias in the credit rating process. For example, in seeking to balance the objectives of continuity and bias avoidance, modeFinance could assign a team of analysts to participate in determining the credit ratings – some for whom the rated entity or obligation is within their area of primary analytical responsibility and some of whom have other areas of primary analytical responsibility.*
- 15) *modeFinance should ensure that sufficient employees and financial resources are allocated to monitoring and updating all its credit ratings. Except for a credit rating that clearly indicates it does not entail ongoing surveillance, once a credit rating is published, modeFinance should monitor the credit rating on an ongoing basis by:*
 - a) *reviewing the creditworthiness of the rated entity or obligation regularly;*
 - b) *initiating a review of the status of the credit rating upon becoming aware of any information that might reasonably be expected to result in a credit rating action (including withdrawal of a credit rating), consistent with the applicable credit rating methodology;*
 - c) *reviewing the impact of and applying a change in the credit rating methodologies, models or key rating assumptions on the relevant credit ratings within a reasonable period of time;*
 - d) *updating on a timely basis the credit rating, as appropriate, based on the results of such review; and*
 - e) *incorporating all cumulative experience obtained.*
- 16) *When separate analytical teams are used to determine initial credit ratings and subsequent monitoring of existing credit ratings, each team should have the requisite level of expertise and resources to perform their respective functions in a timely manner.*
- 17) *modeFinance should establish, maintain, document, and enforce policies and procedures that clearly set forth guidelines for disseminating credit ratings that are the result or subject of credit rating actions and the related reports, and for when a credit rating will be withdrawn.*

B. Integrity of the Credit Rating Process

- 18) *modeFinance and its employees should deal fairly and honestly with rated entities and users of credit ratings.*
- 19) *modeFinance employees should be held to the highest standards of integrity and ethical behavior, and modeFinance should have policies and procedures in place that are designed to ensure that individuals with demonstrably compromised integrity are not employed.*
- 20) *modeFinance and its employees should not, either implicitly or explicitly, give any assurance or guarantee to an entity subject to a rating action, or user of modeFinance credit ratings about the outcome of a particular credit rating action.*
- 21) *modeFinance and its employees should not make promises or threats about potential credit rating actions to influence rated entities, or users of the modeFinance credit ratings (e.g., subscribers) to pay for credit ratings or other services.*
- 22) *modeFinance and its employees should not make proposals or recommendations regarding the activities of rated entities or obligors that could impact a credit rating of the rated entity or obligation, including but not limited to proposals or recommendations about corporate or legal structure, assets and liabilities, business operations, investment plans, lines of financing, business combinations, and the design of structured finance products.*
- 23) *In each jurisdiction in which modeFinance operates, modeFinance should establish, maintain, document, and enforce policies, procedures, and controls designed to ensure that modeFinance and its employees comply with modeFinance code of conduct and applicable laws and regulations.*
 - a. *modeFinance should establish a compliance function responsible for monitoring and reviewing the compliance of modeFinance and its employees with the provisions of modeFinance code of conduct and with applicable laws and regulations.*
 - b. *The compliance function also should be responsible for reviewing the adequacy of modeFinance policies, procedures, and controls designed to ensure compliance with modeFinance code of conduct and applicable laws and regulations.*
 - c. *modeFinance should assign a senior level employee with the requisite skill set to serve as modeFinance compliance officer in charge of the compliance function. The compliance officer's reporting lines and compensation should be independent of modeFinance credit rating operations.*
- 24) *Upon becoming aware that another employee or an affiliate of modeFinance is or has engaged in conduct that is illegal, unethical, or contrary to modeFinance code of conduct, modeFinance employee should report such information immediately to the compliance officer or another officer of modeFinance, as appropriate, so proper action may be taken. The modeFinance employees are not necessarily expected to be experts in the law. Nonetheless, modeFinance employees are expected to report activities that a reasonable person would question. Upon receiving such a report from an employee, the modeFinance is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the policies, procedures, and controls established,*

maintained, documented, and enforced by modeFinance. A modeFinance should prohibit retaliation by modeFinance or an employee against any employees who, in good faith, make such reports.

2. CRA Independence and Avoidance of Conflicts of Interest

A. General

- 25) *modeFinance should not delay or refrain from taking a credit rating action based on the potential effect (economic, political, or otherwise) of the action on the CRA, a rated entity, investor, or other market participant.*
- 26) *modeFinance and its employees should use care and professional judgment to maintain both the substance and appearance of the CRA's and its employees' independence and objectivity.*
- 27) *modeFinance's determination of a credit rating should be influenced only by factors relevant to assessing the creditworthiness of the rated entity or obligation.*
- 28) *The credit rating modeFinance assigns to an entity or obligation should not be affected by whether there is an existing or potential business relationship between modeFinance (or its affiliates) and the rated entity (or any of its affiliates), or any other party.*
- 29) *modeFinance should operationally, legally and, if practicable, physically separate its credit rating business and its analysts from any other businesses of modeFinance that may present a conflict of interest. For other businesses that do not necessarily present a conflict of interest, modeFinance should establish, maintain, document, and enforce policies, procedures, and controls designed to minimize the likelihood that conflicts of interest will arise. modeFinance should disclose why it believes those other businesses do not present a conflict of interest with its credit rating business.*

B. modeFinance Policies, Procedures, Controls and Disclosures

- 30) *modeFinance should establish, maintain, document, and enforce policies, procedures, and controls to identify and eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the credit rating methodologies, credit rating actions, or analyses of modeFinance or the judgement and analyses of modeFinance employees. Among other things, the policies, procedures and controls should address (as applicable to modeFinance business model) how the following conflicts can potentially influence modeFinance credit rating methodologies or credit rating actions:*
 - a) *being paid to issue a credit rating by the rated entity;*
 - b) *being paid by subscribers with a financial interest that could be affected by a credit rating action of modeFinance;*
 - c) *being paid by rated entities for services other than issuing credit ratings or providing access to modeFinance credit ratings;*
 - d) *[not applicable]*
 - e) *Having a direct or indirect ownership interest in a rated entity or having a rated entity a direct or indirect ownership interest in modeFinance.*
- 31) *modeFinance should disclose actual and potential conflicts of interest (including, but not limited to, those conflicts of interest identified in the previous Principle) in a complete, timely, clear, concise, specific, and prominent manner. When the actual or potential conflict of interest is unique or specific to a credit rating action with respect to a particular rated entity, such conflict of interest should be disclosed in the same form and through the same means as the relevant credit rating action.*
- 32) *modeFinance should disclose the general nature of its compensation arrangements with rated entities.*
 - a) *When modeFinance receives from a rated entity compensation unrelated to its credit rating services, modeFinance should disclose such unrelated compensation as a percentage of total annual compensation received from such rated entity in the relevant credit rating report or elsewhere, as appropriate.*
 - b) *modeFinance should disclose in the relevant credit rating report or elsewhere, as appropriate, if it receives 10 percent or more of its annual revenue from a single client (eg a rated entity or any of their affiliates).*
- 33) *[not applicable since modeFinance does not rate structured finance]*
- 34) *modeFinance should not hold or transact in trading instruments presenting a conflict of interest with modeFinance's credit rating activities.*
- 35) *[not applicable since modeFinance does not rate sovereigns/oversight entities]*

C. modeFinance Employee Independence

- 36) *Reporting lines for modeFinance employees and their compensation arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest.*
 - a) *modeFinance employee who participates in or who might otherwise have an effect on a credit rating action*

with respect to an entity or obligation should not be compensated or evaluated on the basis of the amount of revenue that modeFinance derives from that entity or obligor.

- b) modeFinance should conduct formal and periodic reviews of its compensation policies, procedures and practices for modeFinance employees who participate in or who might otherwise have an effect on a credit rating action to ensure that these policies, procedures and practices have not compromised and do not compromise the objectivity of modeFinance's credit rating process.*
- 37) modeFinance's employees who participate in or who might otherwise have an effect on a credit rating action should not initiate or participate in discussions with rated entities or subscribers regarding fees or payments charged to such rated entity or subscriber.*
- 38) modeFinance's employees should not participate in or otherwise influence a modeFinance credit rating action with respect to an entity or obligation if the employee, an immediate family member of the employee (eg spouse, domestic partner, or dependent), or an entity managed by the employee (eg, a trust):*
 - a) holds or transacts in a trading instrument issued by the rated entity or obligor;*
 - b) 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;*
 - c) holds or transacts in a trading instrument issued by an affiliate of the rated entity or obligor, the ownership of which may cause or may be perceived as causing a conflict of interest with respect to the employee or modeFinance;*
 - d) holds or transacts in a trading instrument issued by a lead underwriter or arranger of the rated obligation, the ownership of which may cause or may be perceived as causing a conflict of interest with respect to the employee or modeFinance;*
 - e) is currently employed by, or had a recent employment or other significant business relationship with the rated entity or obligor or a lead underwriter of the rated obligation that may cause or may be perceived as causing a conflict of interest;*
 - f) is a director of the rated entity or obligor, or lead underwriter of the rated obligation;*
 - g) has, or had, another relationship with or interest in the rated entity, obligor, or the lead underwriter of the rated obligation (or any of their affiliates) that may cause or may be perceived as causing a conflict of interest.*
- 39) A modeFinance analyst should not hold or transact in a trading instrument issued by a rated entity or obligor 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 of obligor in the analyst's area of primary analytical responsibility.*
- 40) A modeFinance employee should be prohibited from soliciting money, gifts, or favors from anyone with whom modeFinance does business and should be prohibited from accepting gifts offered in the form of cash or cash equivalents or any gifts exceeding a minimal monetary value.*
- 41) A modeFinance 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 should be required under modeFinance policies, procedures and controls to disclose the relationship to the compliance officer or another officer of modeFinance, as appropriate.*
- 42) modeFinance should establish, maintain, document, and enforce policies, procedures, and controls for reviewing without unnecessary delay the past work of an analyst who leaves the employ of modeFinance and joins an entity that the employee participated in rating, an obligor whose obligation the employee participated in rating, or any of their affiliates.*

3. modeFinance responsibilities to the investing public and rated entities

A. Transparency and Timeliness of Credit Rating Disclosure

- 43) modeFinance should assist investors and other users of credit ratings in developing a greater understanding of credit ratings by disclosing in plain language, among other things, the nature and limitations of credit ratings and the risks of unduly relying on them to make investment or other financial decisions. Being subject to CRA registration and oversight program administered by a regional or national authority, modeFinance should not state or imply that the authority endorses its credit ratings or use its registration status to advertise the quality of its credit ratings.*
- 44) modeFinance should disclose sufficient information about its credit rating process and its credit rating methodologies, so that investors and other users of credit ratings can understand how a credit rating was determined by modeFinance.*
- 45) modeFinance should disclose a material modification to a credit rating methodology prior to the modification taking effect unless doing so would negatively impact the integrity of a credit rating by unduly delaying the taking of a credit rating action. In either case, modeFinance should disclose the material modification in a non-selective*

manner.

- 46) *modeFinance* should disclose its policies and procedures that address the issuance of unsolicited credit ratings.
- 47) *modeFinance* should disclose its policies and procedures for distributing credit ratings and reports, and for when a credit rating will be withdrawn.
- 48) *modeFinance* should disclose clear definitions of the meaning of each category in its rating scales, including the definition of default.
- 49) *[reference to structured finance]*
- 50) *modeFinance* should be transparent with investors, rated entities about how the relevant entity or obligation is rated.
- 51) Where feasible and appropriate, *modeFinance* should inform the rated entity about the critical information and principal considerations upon which a credit rating will be based prior to disseminating a credit rating that is the result or subject of the credit rating action and afford such rated entity an adequate opportunity to clarify any factual errors, factual omissions, or factual misperceptions that would have a material effect on the credit rating. *modeFinance* should duly evaluate any response from such rated entity. Where in particular circumstances *modeFinance* has not informed such rated entity prior to disseminating a credit rating action, *modeFinance* should inform such rated entity as soon as practical thereafter and, generally, should explain why *modeFinance* did not inform such rated entity prior to disseminating the credit rating action.
- 52) When *modeFinance* publicly discloses or distributes to its subscribers (depending on *modeFinance* business model) a credit rating that is the result or subject of the credit rating action, it should do so as soon as practicable after taking such action.
- 53) When *modeFinance* publicly discloses or distributes to its subscribers (depending on *modeFinance* business model) a credit rating that is the result or subject of the credit rating action, it should do so on a non-selective basis.
- 54) *modeFinance* should disclose with a credit rating that is the result or subject of a credit rating action whether the rated entity participated in the credit rating process. Each credit rating not initiated at the request of the rated entity should be identified as such.
- 55) *modeFinance* should clearly indicate the attributes and limitations of each credit rating, and the extent to which *modeFinance* verifies information provided to it by the rated entity. For example, if the credit rating involves a type of entity or obligation for which there is limited historical data, *modeFinance* should disclose this fact and how it may limit the credit rating.
- 56) *modeFinance* should indicate in the announcement of a credit rating that is the result or subject of a credit rating action when the credit rating was last updated or reviewed. The credit rating announcement should also indicate the principal credit rating methodology or methodology version that was used in determining the credit rating and where a description of that credit rating methodology can be found. Where the credit rating is based on more than one credit rating methodology, or where a review of only the principal credit rating methodology might cause investors and other users of credit ratings to overlook important aspects of the credit rating, *modeFinance* should explain this fact in the credit rating announcement, and indicate where to find a discussion of how the different credit rating methodologies and other important aspects factored into the credit rating decision.
- 57) *[structured finance]*
- 58) When issuing or revising a credit rating, *modeFinance* should explain in its announcement and/or report the key assumptions and data underlying the credit rating, including financial statement adjustments that deviate materially from those contained in the published financial statements of the relevant rated entity.
- 59) If *modeFinance* discontinues monitoring a credit rating for a rated entity it should either withdraw the credit rating or disclose such discontinuation to the public or to its subscribers (depending on *modeFinance* business model) as soon as practicable. A publication by *modeFinance* of a credit rating that is no longer being monitored should indicate the date the credit rating was last updated or reviewed, the reason the credit rating is no longer monitored, and the fact that the credit rating is no longer being updated.
- 60) To promote transparency and to enable investors and other users of credit ratings to compare the performance of different CRAs, *modeFinance* should disclose sufficient information about the historical transition and default rates of its credit rating categories with respect to the classes of entities and obligations it rates. This information should include verifiable, quantifiable historical information, organized over a period of time, and, where possible, standardized in such a way to assist investors and other users of credit ratings in comparing different CRAs. If the nature of the rated entity or obligation or other circumstances make such historical transition or default rates inappropriate, statistically invalid, or otherwise likely to mislead investors or other users of credit ratings, *modeFinance* should disclose why this is the case.

B. The Treatment of Confidential Information

- 61) *modeFinance* should establish, maintain, document, and enforce policies, procedures, and controls to protect confidential and/or material non-public information, including confidential information received from a rated entity, and non-public information about a credit rating action (eg information about a credit rating action before the credit rating is publicly disclosed or disseminated to subscribers).

- a) *The policies, procedures, and controls should prohibit modeFinance and its employees from using or disclosing confidential and/or material non-public information for any purpose unrelated to modeFinance credit rating activities, including disclosing such information to other employees where the disclosure is not necessary in connection with modeFinance credit rating activities, unless disclosure is required by applicable law or regulation.*
 - b) *The policies, procedures, and controls should require modeFinance and its employees to take reasonable steps to protect confidential and/or material non-public information from fraud, theft, misuse, or inadvertent disclosure.*
 - c) *With respect to confidential information received from a rated entity, the policies, procedures, and controls should prohibit modeFinance and its employees from using or disclosing such information in violation of the terms of any applicable agreement or mutual understanding that modeFinance will keep the information confidential, unless disclosure is required by applicable law or regulation.*
 - d) *With respect to a pending credit rating action, the policies, procedures, and controls should prohibit modeFinance and its employees from selectively disclosing information about the pending credit rating action, except to the rated entity, or as required by applicable law or regulation.*
- 62) *modeFinance should establish, maintain, document, and enforce policies, procedures and controls designed to prevent violations of applicable laws and regulations governing the treatment and use of confidential and/or material non-public information.*
- 63) *modeFinance should establish, maintain, document, and enforce policies, procedures, and controls that prohibit employees that possess confidential and/or material non-public information concerning a trading instrument from engaging in a transaction in the trading instrument or using the information to advise or otherwise advantage another person in transacting in the trading instrument.*

4. Governance, Risk Management, and Employee Training

- 64) *modeFinance board (or similar body) should have ultimate responsibility for ensuring that modeFinance establishes, maintains, documents and enforces a code of conduct that gives full effect to the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies.*
- 65) *modeFinance should establish a risk management function made up of one or more senior managers or employees with the appropriate level of experience responsible for identifying, assessing, monitoring and reporting the risks arising from its activities, including, but not limited to legal risk, reputational risk, operational risk, and strategic risk. The function should be independent of the internal audit function (if practicable given modeFinance size) and make periodic reports to the board (or similar body) and senior management to assist them in assessing the adequacy of the policies, procedures, and controls modeFinance establishes, maintains, documents, and enforces to manage risk, including the policies, procedures, and controls specified in the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies.*
- 66) *modeFinance should establish, maintain, document, and enforce policies, procedures, and controls requiring employees to undergo formal ongoing training at reasonably regular time intervals. The subject matter covered by the training should be relevant to the employee's responsibilities and should cover, as applicable, modeFinance code of conduct, modeFinance credit rating methodologies, the laws governing modeFinance credit rating activities, modeFinance policies, procedures and controls for managing conflicts of interest and governing the holding and transacting in trading instruments, and modeFinance policies and procedures for handling confidential and/or material non-public information. The policies, procedures, and controls should include measures designed to verify that employees undergo required training.*

5. Disclosure and Communication with Market Participants

- 67) *modeFinance disclosures, including those specified in the provisions of the IOSCO CRA Code, should be complete, fair, accurate, timely, and understandable to investors and other users of credit ratings.*
- 68) *modeFinance should disclose with its code of conduct a description of how the provisions of its code of conduct fully implement the provisions of the IOSCO Statement of Principles Regarding the Activities of Credit Rating Agencies and the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (collectively, the "IOSCO provisions"). If modeFinance code of conduct deviates from an IOSCO provision, modeFinance should identify the relevant IOSCO provision, explain the reason for the deviation, and explain how the deviation nonetheless achieves the objectives contained in the IOSCO provisions. modeFinance should describe how it implements and enforces its code of conduct. modeFinance also should disclose as soon as practicable any changes to its code of conduct or changes to how it is being implemented or enforced.*
- 69) *modeFinance should establish and maintain a function within its organization charged with receiving, retaining, and handling complaints from market participants and the public. The function should establish, maintain, document, and enforce policies, procedures, and controls for receiving, retaining, and handling complaints, including those that are provided on a confidential basis. The policies, procedures, and controls should specify the*

- circumstances under which a complaint must be reported to senior management and/or the board (or similar body).*
- 70) *modeFinance should publicly and prominently disclose free of charge on its primary website:*
- a) modeFinance code of conduct;*
 - b) a description of modeFinance credit rating methodologies;*
 - c) information about modeFinance historic performance data; and*
 - d) any other disclosures specified in the provisions of the IOSCO CRA Code as applicable given modeFinance business model.*