

THE CODE OF CONDUCT OF CREDIT-RATING AGENCY

Adopted in accordance with the Recommendations of the IOSCO's (the International Organization of Securities Commissions) Technical Committee

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INTRODUCTION

Credit rating agencies (CRAs) can play an important role in modern capital markets by providing market participants with professional opinions on the credit risk of issuers of securities and their financial obligations. Receiving a vast amount of information from borrowers CRAs help investors and other market participants determine the important information, and analyze the credit risks investors may face when lending to a particular borrower or when purchasing an issuer's debt and debt-like securities. CRAs help to reduce the existing disproportion in information between borrowers and issuers on the one hand and creditors and debt securities purchasers – on the other.

In September 2003, IOSCO's Technical Committee published a Statement of Principles Regarding the Activities of Credit Rating Agencies. The Principles were designed to be a useful tool for securities regulators (National commissions for securities and stock market and similar agencies), rating agencies and others wishing to articulate the terms and conditions under which CRAs operate and the manner in which opinions of CRAs should be used by market participants. Because CRAs are regulated and operate differently in different jurisdictions, the Principles laid out high-level objectives that rating agencies, regulators, issuers and other market participants should strive towards in order to improve investor protection fairness, efficiency and transparency of securities markets and reduce systemic risk. The Principles were designed to apply to all types of CRAs operating in various jurisdictions. However, to take into account the different markets, legal and regulatory circumstances in which CRAs operate, and the varying size and business models of CRAs, the Principles could be implemented both through market and regulatory mechanisms.

Following publication of the CRA Principles, the discussions among IOSCO members, CRAs, representatives of the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, issuers, and the public at large resulted in IOSCO's Technical Committee developing and publishing in December 2004 a more specific and detailed Code of Conduct Fundamentals for Credit Rating Agencies giving guidance on how the Principles should be implemented in practice.

The Code of Conduct of Credit-Rating Agency was developed according to the requirements of the IOSCO's Technical Committee and Code of Conduct Fundamentals for CRAs to enhance market transparency and enable the Ukrainian financial market participants and regulatory bodies to make conclusion on the level of introduction of international code by the rating agency.

Credit-Rating Agency confirms that the norms of this Code comply without exception with the Principles Regarding CRA Activities and the Code of Conduct Fundamentals established by the IOSCO. On the basis of this Code the Credit-Rating Agency management develops its own internal policy. Credit-Rating Agency appoints officers in charge of maintaining relations with stock market participants and the public at large regarding any issues, questions and complaints the Credit-Rating Agency might receive regarding its Code.

The primary objective of the Code is protecting investors by providing them with objective, complete and timely information pertaining to borrowers and issuers in the capital market while ensuring the integrity of the rating procedure. To achieve this objective it is vital to maintain CRAs' independence from issuers they serve. The Code provisions for Credit-Rating Agency's obligations before issuers have been developed to improve credit ratings and enhance their value for investors. These provisions should not be deemed as undermining Credit-Rating Agency's independence or its capability to give timely rating evaluations.

According to the IOSCO's Technical Committee Principles regarding the Activities of CRAs, the Code is structurally broken into three sections:

- The Quality and Integrity of the Rating Process;
- Independence and the Avoidance of Conflicts of Interest; and,
- Responsibilities to the Investing Public and Issuers.

THE CODE OF CONDUCT OF CREDIT-RATING AGENCY

1. THE QUALITY AND INTEGRITY OF THE RATING PROCESS

The Quality of the Rating Process

- 1.1 Credit-Rating Agency applies approved procedures to provide fair and comprehensive analysis of all significant information available to the agency in accordance with the published rating methodologies.
- 1.2 Credit-Rating Agency implements sound and systematic methods, and the validity of the ratings assigned is subject to confirmation on the basis of historical default level for each rating grade.
- 1.3 When assessing a borrower's creditworthiness, analysts engaged in preparation of a rating report on any rating event (assignment, confirmation or change of rating) employ exclusively methods and procedures approved by Credit-Rating Agency.
- 1.4 A credit rating is assigned by the Rating Committee of Credit-Rating Agency not any single agency analyst; the rating reflects all available information, is relevant and complies with approved methodology. For the work in the Rating Committee, Credit-Rating Agency engages analysts with appropriate knowledge and experience in rating evaluations of borrowers or liabilities.
- 1.5 Credit-Rating Agency keeps all necessary information pertaining to the rating evaluation for no less than three years following the rating event unless otherwise provided for by current laws or deemed necessary for the rating procedure.
- 1.6 Credit-Rating Agency and its analysts take care to avoid the publicity of any analytical materials or reports containing non-representative information or data distorting the actual state of creditworthiness of a borrower or liability.
- 1.7 Credit-Rating Agency confirms that it has in its disposal sufficient resources to provide a high-quality rating analysis of all liabilities and borrowers subject to rating. When making a decision concerning a rating assignment or the upgrade of a liability or borrower, Credit-Rating Agency deliberates on whether it has sufficient professionals to conduct comprehensive rating research and whether these specialists can acquire all information necessary for this analysis.
- 1.8 Credit-Rating Agency organizes the work of its personnel to ensure its continuous operation and avoid interruptions in the rating procedure.

Monitoring and Updating

- 1.9. Immediately after the rating assignment, Credit-Rating Agency initiates the monitoring of this rating on a regular basis and updates the rating by means of:

- 1.9.1. the regular revision of a borrower's creditworthiness;

- 1.9.2. the initiation of a rating revision through reasonable consideration of information which might suffice to change the rating (including its withdrawal) in accordance with approved methodology;

- 1.9.3. a rating update with certain regularity taking into consideration the results of the analysis undertaken.

1.10. In case of publicity of a rating for the public at large Credit-Rating Agency announces the suspension of an updating (if any) of this rating of a borrower or liability. Whenever Credit-Rating Agency publishes a rating without updating it indicates the date of the last update and the fact that the rating is currently unchanged.

The Integrity of the Rating Process

1.11 The activities of Credit-Rating Agency and its employees comply with current legislation and regulatory requirements regarding rating agencies in Ukraine.

1.12 Credit-Rating Agency and its employees deal fairly and openly with issuers, investors, market participants and the public at large.

1.13 Credit-Rating Agency employees meet high moral standards; Credit-Rating Agency does not hire disreputable people.

1.14 Credit-Rating Agency and its employees do not give any explicit or implicit guarantees as regards to a rating level prior to its assignment. This does not preclude the rating agency from developing prospective assessments used in structured finance and similar transactions.

1.15 Credit-Rating Agency institutes policies and procedures for the implementation of the Code and clearly specifies a person responsible for Credit-Rating and its employees' compliance with the provisions of Code of conduct and within applicable laws and regulations. This person's reporting lines and compensation are independent of the agency's rating operations.

1.16 Upon becoming aware that another employee or entity under common control with Credit-Rating is or has engaged in conduct that is illegal, unethical or contrary to Credit-Rating's Code of conduct, the employee reports such information immediately to the individual in charge of compliance or an officer of Credit-Rating, as appropriate, so that proper action may be taken. The Agency's employees are not necessarily expected to be experts in the law. Nonetheless, its employees are expected to report the activities that a reasonable person would question. Any officer of Credit-Rating who receives such a report from an employee is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the rules and guidelines set forth by the agency. The CRA's management prohibits retaliation by others of its staff or by CRA itself against any employees who, in good faith, make such reports.

2. INDEPENDENCE AND AVOIDANCE OF CONFLICTS OF INTEREST

General Provisions

2.1 Credit-Rating Agency does not forbear or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on CRA, an issuer, an investor, or other market participant.

2.2. Credit-Rating Agency and its analysts use care and professional judgment to maintain both the substance and appearance of independence and objectivity.

2.3. The determination and updating of a credit rating is influenced only by factors relevant to the credit assessment.

2.4. The credit rating Credit-Rating Agency assigns to an issuer or security is not affected by the existence of or potential for a business relationship between CRA and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship.

2.5. Credit-Rating Agency separates, operationally and legally, its credit rating business and CRA analysts from any other businesses including consulting businesses that may present a conflict of interest. Credit-Rating Agency ensures that ancillary business operations which do not necessarily present conflicts of interest with the Agency's rating business have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest arise.

Procedures and Policies of the Rating Agency

2.6. Credit-Rating Agency 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 that Credit-Rating Agency makes or the judgment and analyses of individual Credit-Rating Agency employees who have an influence on ratings decisions. The Code also indicates that Credit-Rating Agency is to discern and avoid conflict of interests through management measures.

2.7. Credit-Rating Agency's disclosures of actual and potential conflicts of interest are complete, timely, clear, concise, specific and prominent.

2.8 Credit-Rating Agency discloses the general nature of its compensation arrangements with rated entities. Where CRA receives from a rated entity compensation unrelated to its ratings service, such as compensation for consulting services, Credit-Rating Agency discloses the proportion such non- rating fees constitute against the fees CRA receives from the entity for ratings services.

2.9 Credit-Rating Agency and its employees do not engage in any securities or derivatives trading presenting conflicts of interest with Credit-Rating Agency's rating activities.

2.10 In instances where rated entities (e.g., governments) have, or are simultaneously pursuing, oversight functions related to CRA, Credit-Rating Agency uses different employees to conduct its rating actions than those employees involved in the oversight issues.

Analyst and Employee Independence

2.11 Reporting lines for Credit-Rating Agency's employees and their compensation arrangements are structured to eliminate or effectively manage actual and potential conflicts of interest. A Credit-Rating Agency's analyst is not compensated or evaluated on the basis of the amount of revenue that Credit-Rating Agency derives from issuers that the analyst rates or with which the analyst regularly interacts.

2.12 Credit-Rating Agency does not have employees who are directly involved in the rating process initiate, or participate in, discussions regarding fees or payments with any entity they rate.

2.13 No Credit-Rating Agency's employee participates in or otherwise influences the determination of credit rating of any particular entity or obligation if the employee:

2.13.1. Owns securities or derivatives of the rated entity, other than holdings in diversified collective investment schemes;

2.13.2. Owns securities or derivatives of any entity related to a rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes;

2.13.3. Has been over the recent three years employed or had other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest;

2.13.4. Has an immediate relation (i.e., a spouse, partner, parent, child, or sibling) who currently works for the rated entity; or

2.13.5. Has, or had, any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.

2.14 Credit-Rating Agency's analysts and anyone involved in the rating process (or their spouse, partner or minor children) does 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.

2.15 Credit-Rating Agency's employees are prohibited from soliciting money, gifts or favours from anyone with whom Credit-Rating Agency does business and are prohibited from accepting gifts offered in the form of cash or any gifts exceeding UAH50 in value.

2.16. Any Credit-Rating Agency's analyst who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest (including, for example, any personal relationship with an employee of a rated entity or agent of such entity within his or her area of analytic responsibility), is required to disclose such relationship to the appropriate manager or officer of the rating agency.

3. RESPONSIBILITIES TO THE INVESTING PUBLIC AND ISSUERS

Transparency and Timeliness of Ratings Disclosure

3.1 Credit-Rating Agency distributes in a timely manner its ratings decisions regarding the securities for public offering and entities of such securities it rates.

3.2 Credit-Rating Agency policy concerning the disclosure of ratings, reports and updates includes the following provisions:

3.2.1. the first assigned credit rating of an issuer or security is published free of charge and indiscriminately for the general public given the issuer's consent for disclosure (except for a rating assignment in public finance) unless otherwise provided for by current legislation;

3.2.2. the first assigned credit rating in public finance (a government, local administration, etc.) is published free of charge and indiscriminately for the general public irrespective of the issuer's consent unless otherwise provided for by legislation;

3.2.3. the information on any further rating decisions (confirmation, change of rating or forecast, suspension or withdrawal) regarding the rating previously published at the issuer's consent is disclosed by the rating agency free of charge and indiscriminately for the general public irrespective of the issuer's consent unless otherwise provided by current legislation.

3.3. Credit-Rating Agency indicates with each of its ratings when the rating was assigned and last updated.

3.4. Credit-Rating Agency with each of its rating publications substantiates the rating decision to provide third parties with grounds for understanding of how the rating was assigned. In addition this information includes a rating level definition in accordance with the rating scale and the period of the issuer's activity under analysis.

3.5. When assigning and revising a credit rating, Credit-Rating Agency explains in its press-releases and reports the key elements underlying the rating opinion.

3.6. Where feasible and appropriate, prior to issuing or revising a rating, Credit-Rating Agency informs the issuer of the critical information and principal considerations upon which a rating is based and affords the issuer an opportunity to clarify any likely factual misperceptions or other matters that Credit-Rating Agency might wish to be made aware of in order to produce an accurate rating. Credit-Rating Agency duly evaluates the response. Where in particular a circumstance Credit-Rating Agency has not informed the issuer prior to issuing or revising a rating, Credit-Rating Agency informs the issuer as soon as practical thereafter and, generally, explains the reason for the delay.

3.7. In order to promote transparency and to enable the market to best judge the performance of the ratings, Credit-Rating Agency, where possible, publishes sufficient information about the historical default rates of 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 credit rating agencies. If the nature of the rating or other circumstances make a historical default rate inappropriate, statistically invalid, or otherwise likely to mislead the users of the rating, Credit-Rating Agency explains this.

3.8. For each rating, Credit-Rating Agency discloses whether the issuer participated in the rating process. Each rating not initiated at the request of the issuer, but on the basis of the public information is identified as such (pi). Credit-Rating Agency policies and procedures regarding unsolicited ratings include such provisions:

3.8.1. Credit-Rating Agency assigns ratings based on public information only provided that the necessary information is publicly available about the issuer;

3.8.2. Where feasible and appropriate, prior to issuing a rating based on public information, Credit-Rating Agency informs the issuer of the critical information and principal considerations upon which a rating is based and affords the issuer an opportunity to clarify any likely factual misperceptions or other matters that Credit-Rating Agency might wish to be made aware of in order to produce an accurate rating.

3.9. Because users of credit ratings rely on an existing awareness of Credit-Rating Agency methodologies, practices, procedures and processes, Credit-Rating Agency fully and publicly discloses any material modification to its methodologies and significant practices, procedures, and processes. When feasible and appropriate, disclosure of such material modifications is



made prior to their becoming effective. Credit-Rating Agency carefully considers the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.

The Treatment of Confidential Information

3.10. Credit-Rating Agency adopts procedures and mechanisms to protect the confidential nature of information shared with it by issuers under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially. Unless otherwise permitted by the confidentiality agreement and consistent with applicable laws or regulations, Credit-Rating Agency and their employees do not disclose confidential information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise.

3.11. Credit-Rating Agency uses confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.

3.12. Credit-Rating Agency's employees take all reasonable measures to protect all property and records belonging to or in possession of Credit-Rating Agency from fraud, counterfeit, unauthorized access or misuse.

3.13. Credit-Rating Agency's employees are prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.

3.14. For the preservation of confidential information, Credit-Rating Agency's employees familiarize themselves with the internal securities trading policies maintained by their employer, and periodically (no less than once a year) certify their compliance as required by such policies.

3.15. Credit-Rating Agency's employees do not selectively disclose any non-public information about rating opinions or possible future rating actions of CRA, except to the issuer or its designated agents.

3.16. Credit-Rating Agency's employees do not share confidential information entrusted to CRA with employees of any affiliated entities that are not credit rating agencies. CRA employees do not share confidential information within CRA except on an "as needed" basis.

3.17. Credit-Rating Agency's employees do not use or share confidential information for the purpose of trading securities, or for any other purpose except for the purpose of conducting Credit-Rating Agency's business.