



# CODE OF CONDUCT

## Table of Contents

### INTRODUCTION

<b>I.</b>	<b>DEFINITIONS -----</b>	<b>3</b>
<b>II.</b>	<b>WHAT IS A CREDIT RATING? -----</b>	<b>4</b>
<b>III.</b>	<b>THE PROVISIONS -----</b>	<b>4</b>
	<b>1. QUALITY AND INTEGRITY OF THE RATING PROCESS -----</b>	<b>4</b>
	A. Quality of the Rating Process -----	4
	B. Monitoring and Updating -----	6
	C. Integrity of the Rating Process -----	6
	<b>2. INDEPENDENCE AND MANAGEMENT OF CONFLICTS OF INTEREST -----</b>	<b>7</b>
	A. General -----	7
	B. Procedures and Policies -----	8
	C. Analyst and Employee Independence -----	8
	<b>3. RESPONSIBILITIES TO THE INVESTING PUBLIC AND ISSUERS -----</b>	<b>10</b>
	A. Transparency and Timeliness of Ratings Disclosure -----	10
	B. Treatment of Confidential Information -----	12
	<b>4. DISCLOSURE OF THE CODE OF CONDUCT AND COMMUNICATION WITH MARKET PARTICIPANTS -----</b>	<b>13</b>
<b>IV.</b>	<b>IOSCO CODE OF CONDUCT -----</b>	<b>13</b>

## INTRODUCTION

PhilRatings, the pioneer domestic credit rating agency in the Philippines, started providing credit rating services in 1985. From rating only commercial papers (CPs) in the 1980s, PhilRatings continues to evaluate debt issues and issuers to date, with the range in terms of types of credit rating done and types of instruments rated broadening over the years. PhilRatings conducts its credit rating in a professional, courteous, fair, and thorough manner. It has demonstrated its ability to safeguard confidential and sensitive information provided by clients throughout the credit rating process. It has avoided and managed “conflict-of-interest” situations and is always focused on the quality and integrity of the rating process.

This PhilRatings Code of Conduct has been derived primarily from the International Organization of Securities Commissions (IOSCO) Code. It also incorporates provisions of the Code of Ethics and Best Practices Framework adopted by the Association of Credit Rating Agencies in Asia (ACRAA). PhilRatings is a founding member of ACRAA and is continuously updating its “best practices” in credit rating as implemented in countries where the emphasis on credit rating is more entrenched.

All employees of PhilRatings are expected to comply with this Code and the related policies, procedures and guidelines.

## I. DEFINITIONS

For the purposes of this Code, the terms below shall have the following meanings:

- ☐ An “**Analyst**” is an employee whose primary function is to participate in the process of credit rating analysis.
- ☐ “**Confidential Information**” is any information received by PhilRatings from an Issuer or its authorized agents in connection with the rating process in respect of which PhilRatings has received written notice of its propriety and confidential nature. However, the term “Confidential Information” shall not include information:
  - That is or later becomes known to the public;
  - That is disclosed lawfully to PhilRatings by a third party subsequent to such disclosure;
  - Developed independently by PhilRatings without reference to the Confidential Information; or
  - Approved in writing by the issuer for public disclosure.
- ☐ A “**Credit Rating**” is PhilRatings’ current opinion on the overall creditworthiness of a particular **Issue** or an **Issuer’s** capacity to meet its financial obligations. Credit Ratings

are determined by a Rating Committee and expressed using PhilRatings' established rating scales, or other rating scales which may be developed by PhilRatings.

- ☐ An “**Issue**” includes bonds, commercial papers, as well as other debt securities and financial instruments.
- ☐ An “**Issuer**” is an entity that issues bonds, commercial papers, as well as other debt securities and financial instruments.

## **II. WHAT IS A CREDIT RATING?**

A credit rating is PhilRatings' opinion that provides a measure of credit quality. It is an unbiased, independent, third-party evaluation of an issue or issuer. It is not a statement of historical facts but captures PhilRatings' judgment about the degree of credit risk in relation to a particular transaction or company. Credit ratings are essentially opinions and necessarily pose possibilities for disagreements in judgment and conclusions. Credit ratings are analysis-driven, based on information furnished by the Issuer or its agents and information obtained by PhilRatings from sources believed to be accurate and reliable. Credit ratings are not recommendations to buy or sell; do not guarantee performance nor are they guarantees against loss and likewise do not provide a commentary on the suitability of an investment for any particular investor.

PhilRatings has no obligation to perform due diligence or independent verification of information it receives in connection with the rating process. It does not conduct any audit as to the completeness and accuracy of such information.

PhilRatings always maintains independence in its relationships with issuers or other interested parties. It does not act as an investment or financial advisor and does not have a fiduciary relationship with the entities that it rates. PhilRatings does not get involved in the structuring of any securitized transaction it rates. It may comment, however, on the potential credit risks of the proposed securitized transaction as it is structured as part of the credit rating feedback process.

## **III. THE PROVISIONS**

### **1. QUALITY AND INTEGRITY OF THE RATING PROCESS**

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

- 1.1 PhilRatings shall ensure that its rating opinions are based on a thorough analysis of all relevant information known, according to its established rating methodologies.
- 1.2 PhilRatings will develop and maintain systematic rating methodologies. Where possible, the ratings resulting from such methodologies shall collectively be subjected to objective validation based on historical experience.

- 1.3 In assessing the creditworthiness of an Issuer or an Issue, Analysts involved in the preparation or review of any rating action will use methodologies established by PhilRatings. Analysts will apply a given methodology in a consistent manner, as determined by PhilRatings.
- 1.4 Credit Ratings will be determined by the Rating Committee and not by any individual Analyst. Credit Ratings will reflect all information known, and believed to be relevant, by the applicable PhilRatings' Analysts and Rating Committee, in a manner generally consistent with PhilRatings' methodologies. PhilRatings will employ Analysts who, individually or collectively, have appropriate knowledge and experience in developing rating opinions for the type of credit being analyzed.
- 1.5 PhilRatings will maintain internal records to support its Credit Ratings in accordance with PhilRatings' internal policies and applicable laws.
- 1.6 PhilRatings and its Analysts will take steps to avoid issuing any credit analyses, ratings or reports that knowingly contain misrepresentations or are otherwise misleading as to the general creditworthiness of an Issuer or obligation or Issue.
- 1.7 PhilRatings will invest sufficient resources to carry out high-quality credit assessments of the Issuers and Issues that it rates. PhilRatings will adopt reasonable measures so that the information it uses in assigning a Credit Rating is of sufficient quality to support a credible rating. If the rating involves a type of financial product presenting limited historical data (such as a new financial vehicle), PhilRatings will make clear, in a prominent manner, the limitations of the Credit Rating.

PhilRatings will assess whether existing methodologies and models for determining the Credit Ratings of structured products are appropriate when the risk characteristics of the assets underlying a structured product change materially. In cases where the complexity or structure of a new type of structured product or the lack of robust data about the assets underlying the structured product raise serious questions as to whether PhilRatings can determine a credible Credit Rating for the security, PhilRatings will refrain from issuing a Credit Rating.

- 1.8 PhilRatings will structure its Rating Committees and its rating teams to promote continuity and avoid bias in the rating process. For each rating assignment, PhilRatings shall assign an Analyst or a team of Analysts with appropriate training and experience. In order to maintain the integrity and objectivity of the rating process and the robustness of internal proceedings, the deliberations and the identities of persons who had participated in a rating committee shall be kept confidential and not revealed to any external party. All rating decisions shall be announced as a joint decision of the Rating Committee and the individual votes shall be kept confidential.

## **B. Monitoring and Updating**

1.9 PhilRatings will ensure that adequate personnel and financial resources are allocated to monitoring and updating its ratings. Except for Credit Ratings that do not entail ongoing surveillance, once a Credit Rating is published, PhilRatings will monitor (over the life of the Issue) on an ongoing basis and update the rating by:

- a. Regularly reviewing the creditworthiness of the Issuer or Issue.
- b. Initiating a review of the status of the Credit Rating upon becoming aware of any information that may reasonably be expected to result in a rating action (including termination of a Credit Rating), consistent with the applicable rating methodology.
- c. Updating the Credit Rating on a timely basis, as appropriate, based on the results of such a review.

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

PhilRatings will ensure that each analytical team that determines the initial ratings and/or subsequent monitoring of structured finance products will have the requisite level of expertise and resources to perform their respective functions in a timely manner.

1.10. PhilRatings will announce via press releases if it discontinues a public Credit Rating on an Issuer or Issue, in relation to an Issuance that remains outstanding. When PhilRatings withdraws a Credit Rating that has been provided only to limited parties, it will inform them accordingly. Further to the provisions on surveillance as set out in section 1.9, PhilRatings will withdraw or suspend a Credit Rating only in extreme circumstances such as the receipt of material adverse information or the non-availability of critical information due to, but not limited to, the non-cooperation of the Issuer. In cases wherein the Issuance has already been paid and if there is no updated rating agreement, ratings related to such shall be taken out from PhilRatings' official list of credit ratings.

### **C. Integrity of the Rating Process**

1.11 PhilRatings and its employees will comply with all the applicable laws and regulations governing its activities in each jurisdiction in which PhilRatings operates.

1.12 PhilRatings and its employees will deal fairly and honestly with Issuers, investors, other market participants and the public.

1.13 PhilRatings will hold its employees to high standards of integrity.

- 1.14 PhilRatings and its Analysts will not, either implicitly or explicitly, give any assurance or guarantee on a particular Credit Rating prior to a Rating Committee assignment.

PhilRatings prohibits its Analysts from making proposals or recommendations regarding the design of structured finance transactions that it rates. However, it can make suggestions on how to further mitigate identified risks in relation to the transaction, if requested by the ratee.

- 1.15 Upon becoming aware that another PhilRatings employee is or has been engaged in conduct that is illegal, unethical, or contrary to the Code, that employee shall report such information immediately to an officer so that proper action may be taken. PhilRatings employees are expected to report activities of which they are aware and that a reasonable person would question as a potential violation of the law or this Code. Any PhilRatings officer who receives such a report from an employee is obligated to take appropriate action, as determined by the laws and regulations and the rules and guidelines set forth by PhilRatings.
- 1.16 PhilRatings' management will prohibit retaliation by any PhilRatings' employee or by PhilRatings itself against any employee who, in good faith, reports a possible violation of the law or this Code.

## **2. INDEPENDENCE AND MANAGEMENT OF CONFLICTS OF INTEREST**

### **A. General**

- 2.1 PhilRatings will not refrain from taking a rating action based on the potential effect of the action on PhilRatings, an Issuer, an investor, or other market participants.
- 2.2 PhilRatings and its Analysts will use care and professional judgment to maintain both the substance and appearance of independence and objectivity.
- 2.3 The determination of a Credit Rating will be influenced only by factors relevant to the credit assessment.
- 2.4 The Credit Rating that PhilRatings assigns to an Issuer or Issue will not be affected by the existence of, or potential for, a business relationship between PhilRatings (or its affiliates) and the Issuer (or its affiliates) or any other party.
- 2.5 PhilRatings will separate its credit rating business and Analysts from other businesses that may present a conflict of interest. PhilRatings will ensure that any existing or future ancillary business operations, which do not necessarily present conflicts of interest with

PhilRatings' credit rating business, have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise.

## **B. Procedures and Policies**

- 2.6 Conflicts of interest or other undue influences, if not managed properly, could undermine PhilRatings' independence, objectivity and credibility. As such, PhilRatings endeavors to avoid conflicts of interest and shall adopt procedures and mechanisms to address the conflicts of interest through a combination of internal controls and disclosure.
- 2.7 In case of any possible conflict of interest situation, the member of the Rating Committee 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. Nevertheless, depending on the nature of the conflict and subject to the discretion of PhilRatings' senior management, the said member may be asked to be a resource person to give information or opinions useful for the consideration of others, but such member will not participate in the voting process itself. PhilRatings will disclose known actual and potential conflicts of interest. Such disclosures will be complete, timely, clear, concise, specific and prominent.
- 2.8 PhilRatings receives compensation from Issuers to enable it to perform credible credit analysis. This compensation must not influence an Analyst's credit opinions or other analytical processes.

Where applicable, PhilRatings will disclose if it receives material compensation from rated entities that is unrelated to its rating services.

- 2.9 PhilRatings will not engage in any securities or derivatives trading that presents conflicts of interest with PhilRatings' rating activities, other than holdings in diversified collective investment schemes.

## **C. Analyst and Employee Independence**

- 2.10 Reporting lines for PhilRatings' employees and their compensation arrangements have been structured to eliminate or effectively manage actual and potential conflicts of interest.
- a. Analysts will not be compensated or evaluated on the basis of the amount of revenue that PhilRatings derives from the Issuers that the Analysts rate, or with which such Analysts regularly interact.
  - b. PhilRatings will conduct formal and periodic reviews of compensation policies and practices for its Analysts and other employees who participate in or who may otherwise have an effect on the rating process, to ensure that



these policies and practices do not compromise the objectivity of the rating process.

- 2.11 Subject to clause 2.7, no PhilRatings employee will participate in or otherwise influence the determination of the Credit Rating or any particular Issuer or Issue if the employee:
- a. Owns securities or derivatives of the rated entity, other than holdings in diversified collective investment schemes.
  - b. 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.
  - c. Has had a recent employment or other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest.
  - d. Has an immediate relation (i.e. spouse, partner, parent, child or sibling) who currently works for the rated entity and whose position may cause or may be perceived as causing a conflict of interest.
  - e. 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.
- 2.12 In accordance with PhilRatings' personal investment policy, Analysts who are involved in the rating process (or their spouses, partners or minor children) should not buy or sell or engage in any transaction in any security 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.
- 2.13 PhilRatings' employees are prohibited from soliciting money, gifts or favors from anyone with whom PhilRatings does business and are prohibited from accepting gifts exceeding a nominal monetary value as determined by PhilRatings' management.
- 2.14 An 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/her area of analytical responsibility) will be required to disclose such relationship to his/her immediate supervisor or department head. Based on the assessment of this information, PhilRatings will take appropriate steps to mitigate the real or apparent conflict.

### **3. RESPONSIBILITIES TO THE INVESTING PUBLIC AND ISSUERS**

#### **A. Transparency and Timeliness of Ratings Disclosure**

- 3.1 PhilRatings will announce to the public as soon as practicable its Credit Rating opinions and actions regarding the Issuers or Issues it rates. PhilRatings will not unduly delay disseminating any rating action.
- 3.2 PhilRatings will publicly disclose its policies for distributing ratings reports and updates.
- 3.3 PhilRatings will indicate with each of its Credit Ratings when the rating was last updated. Each rating announcement will also indicate the principal methodology that had been used in determining the Credit Rating. Where the Credit Rating is based on more than one methodology, or where a review of only the principal methodology may cause investors to overlook other important aspects of the Credit Rating, PhilRatings will explain this fact in the rating announcement, and indicate where a discussion of how the different methodologies and other important aspects are factored into the rating decision.
- 3.4 In line with PhilRatings' rating process, once an Issuer accepts and uses the Credit Rating assigned, PhilRatings will make its Credit Rating (throughout the life of the issue) available to the public without cost. Such a Credit Rating will be disseminated via PhilRatings' public website and through news media, as well as via electronic or print subscription services and its social media platforms. The public will be able to obtain a current Credit Rating for any Issuer or Issue without cost. Press releases of the Credit Rating and a brief explanation of the basis for the rating actions will remain on PhilRatings' public website for a minimum of twenty five (25) business days.
- 3.5 PhilRatings endeavors to assist investors in developing an 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 PhilRatings rates. PhilRatings will clearly indicate the attributes and limitations of each credit opinion, and the limits to PhilRatings' verification of information provided to it by the Issuer or originator of a rated security.
- 3.6 When issuing or revising a Credit Rating, PhilRatings will explain in its press releases and reports the key elements underlying the Credit Rating. PhilRatings may provide the Issuer with a draft copy of the press release and/or rating rationale that will accompany an assigned Credit Rating when it is disseminated to the public. The documents are provided solely for the purpose of allowing the Issuer to correct any factual errors and preventing any Confidential Information from being inadvertently disseminated. PhilRatings shall retain full discretion to disseminate its press releases and/or rating

rationales to the market in whatever form PhilRatings, in its editorial judgment, determines to be the most appropriate.

- 3.7 Where feasible and appropriate, prior to issuing or revising a Credit Rating, PhilRatings will inform the Issuer of the critical information and principal considerations upon which the Credit Rating is based and afford the Issuer an opportunity to submit additional factual information not previously available to the Issuer or PhilRatings, or clarify any likely factual misperceptions in order to produce a well-informed Credit Rating. PhilRatings will duly evaluate the Issuer's response. Where in particular circumstances PhilRatings has not informed the Issuer prior to issuing or revising a Credit Rating, PhilRatings will inform the Issuer as soon as practicable thereafter and, generally, will explain the reason for the delay.
- 3.8 In order to promote transparency and to enable the market to best judge the aggregate performance or to assess the predictive quality of the Credit Ratings, PhilRatings will undertake to publish sufficient information about its historical default rates by rating category and the transitions between rating categories, so that financial market professionals can understand the historical performance of rating categories. The default study shall be initiated at least every six (6) years and shall contain information as to the bases of PhilRatings' default analyses and key assumptions and methodologies. This information will include verifiable, quantifiable, historical information on the performance of PhilRatings' rating opinions, organized and structured and, where possible, standardized in such a way as to assist investors in drawing performance comparisons between different CRAs.
- 3.9 PhilRatings has not assigned unsolicited ratings in the past. However, PhilRatings may issue unsolicited ratings in the future if PhilRatings believes: (i) there is a meaningful credit market or investor interest served by the publication of such a rating; and (ii) it has sufficient information to support adequate analysis and, if applicable, ongoing surveillance. PhilRatings will indicate if its Credit Ratings are unsolicited. Even in the case of an unsolicited rating, PhilRatings will exert efforts to carry out credit assessments in the same rating process as for a solicited rating, by assessing sufficient information and/or interviewing Issuers.
- 3.10 PhilRatings will publicly disclose all material modifications to its rating methodologies and related significant practices and procedures. PhilRatings will carefully consider the various uses of Credit Ratings before modifying its rating methodologies, practices, procedures and processes.

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

- 3.11 PhilRatings will adopt procedures and mechanisms to protect the Confidential Information shared with PhilRatings by Issuers under the standard terms and conditions of the contract between PhilRatings and the Issuers. Unless PhilRatings has received permission from the Issuer, PhilRatings and its employees will refrain from disclosing Confidential Information in press releases, through research conferences, conversations with investors, other Issuers, or any person.
- 3.12 Even with Clause 3.11, PhilRatings will not be restricted from: (a) publishing any Credit Rating or other opinion regarding a particular Issuer or Issue that incorporates Confidential Information, without specifically disclosing it; (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; or (c) disclosing information as required by any applicable law, rule or regulation, or at the request of any governmental agency or authority.
- 3.13 PhilRatings will use Confidential Information only for purposes related to its rating activities. PhilRatings may use Confidential Information for publishing ratings-related research and analytical reports and for modeling purposes, provided that the Confidential Information is not presented in a way that can be directly tied to the Issuer.
- 3.14 PhilRatings employees will take all reasonable measures to protect all property and records belonging to or in the possession of PhilRatings from fraud, theft or misuse.
- 3.15 In accordance with PhilRatings' personal investment policy, its employees will be prohibited from engaging in transactions in securities when they possess Confidential Information concerning the Issuer of such securities.
- 3.16 PhilRatings' employees will not disclose any non-public information about rating opinions or possible future rating actions of PhilRatings, except to the Issuer or its designated agents.
- 3.17 PhilRatings employees will not share Confidential Information entrusted to PhilRatings with the employees of any affiliated entities, except to the extent that such employees are acting as agents of PhilRatings with respect to the rating process, and are bound by appropriate confidentiality obligations. PhilRatings' employees will not share Confidential Information within PhilRatings except on an "as needed" basis.
- 3.18 PhilRatings' employees will not use or share Confidential Information for the purpose of trading securities, or for any other purpose except the conduct of PhilRatings' business.

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

- 4.1 In order to implement the PhilRatings' Code, PhilRatings will adopt internal policies and procedures to make its employees fully aware of this Code. PhilRatings will disclose in a timely manner any modification to this Code.
- 4.2 The President and the Vice President/s shall be responsible for communicating with market participants and the public about any questions, concerns or complaints about PhilRatings' adherence with the Code of Conduct. The objective of this is to help ensure that PhilRatings' officers and management have adequate market intelligence when setting PhilRatings' policies.
- 4.3 PhilRatings will publish in a prominent position, on its home webpage links to: (1) PhilRatings' Code of Conduct; (2) a description of the methodologies it uses; and (3) information on PhilRatings' historic performance data.

#### **IV. IOSCO CODE OF CONDUCT**

PhilRatings fully supports the essential purpose of the IOSCO Code, which is to promote investor protection by safeguarding the integrity of the credit rating process while seeking to improve the usefulness of Credit Ratings via enhanced transparency.

The main provisions of this Code are derived primarily from the IOSCO Code. Given the limited size of the Philippine market, however, it is not feasible to maintain a separate team of personnel to periodically review the methodologies and models independent of the business lines that are responsible for the rating of Issuers and Issues. This review function is undertaken by the Chairman of the Rating Committee and the Head/s of Credit Rating which provides adequate mitigation against any potential conflict of interest.

Given also the small size and relatively early stage of development of structured finance products in the Philippines, PhilRatings may use the same financial analyst to determine the initial ratings and for subsequent monitoring of structured finance products. PhilRatings, however, endeavors to rotate its analysts for each rated Issue.

PhilRatings uses the same rating scale and rating symbols for structured finance and traditional corporate bonds. Our traditional rating scale and rating symbols provide a common standard for the evaluation of the relative credit risks among rated issuers and issues.