



RATINGS

Code of Ethics & Best Practices

FOREWORD

In September 2003, the International Organisation of Securities Commission (“IOSCO”) Technical Committee issued a Statement of Principles Regarding the Activities of Credit Rating Agencies (‘CRA’). These CRA Principles laid out high-level objectives that CRAs, regulators, issuers and other market participants shall follow in order to protect the integrity and analytical independence of the credit rating process.

Subsequent to following an extensive consultation process involving rating agencies, issuers, investors, academics and financial institutions, IOSCO published a *Code of Conduct Fundamentals for Credit Rating Agencies*. The IOSCO CRA Code Fundamentals represents a global, converged view of specific mechanisms CRAs are expected to use to protect their analytical independence, eliminate or manage conflicts of interest, and help ensure the confidentiality of certain types of information shared with them by issuers. IOSCO expects the Code Fundamentals to be adopted by CRAs and market participants around the world so as to strengthen investor and market confidence in the rating process.

The reason so much time was devoted to formulate this policy is because IOSCO recognizes the importance of reliable and accurate credit ratings in helping investors assess the credit risks they face when making investment decisions.

Rather than acting as a code of conduct that CRAs are expected to sign onto, the IOSCO Code Fundamentals are a set of provisions that IOSCO expects all rating agencies will incorporate and give full effect to in their own codes of conduct. The Code of Conduct Fundamentals obliges CRAs not only to incorporate its provisions into their own codes of conduct, but also to explain how each provision is addressed.

If a particular provision of the Code of Conduct is not incorporated into the CRA’s own code of conduct, the CRA is expected to disclose this fact, explain why it has not incorporated the relevant provision, and how the objectives of that provision are otherwise addressed. Market participants will then be able to judge for themselves whether each CRA has implemented the Code of Conduct Fundamentals satisfactorily and react accordingly.

The Code Fundamentals include 52 concrete measures designed to implement the IOSCO CRA Principles effectively and thoroughly, regardless of the size or business model of the CRA or the legal and market circumstances in which it operates.

CRAs shall endeavor to issue opinions that help reduce the asymmetry of information that exists between borrowers and debt and debt-like securities issuers, on one side, and lenders and the purchasers of debt and debt-like securities on the other. Rating analyses of low quality or produced through a process of questionable integrity are of little use to market participants. Stale ratings that fail to reflect changes to an issuer's financial condition or prospects may mislead market participants. Likewise, conflicts of interest or other undue factors – internal and external – that might, or even appear to, impinge upon the independence of a rating decision can seriously undermine a CRA's credibility.

Where conflicts of interest or a lack of independence is common at a CRA and hidden from investors, overall investor confidence in the transparency and integrity of a market can be harmed. CRAs also have responsibilities to the investing public and to issuers themselves, including a responsibility to protect the confidentiality of some types of information issuers share with them.

Hence RAM Ratings has formulated this Code of Conduct and Best Practices to encompass both the IOSCO and Association of Credit Rating Agencies in Asia ("ACRAA") codes. Despite being a relatively new player in an emerging market, RAM Ratings has adopted the most stringent regulations and codes that are followed by CRAs in developed markets to ensure the ratings are unbiased and the integrity of the process is maintained. Hence, this code is applicable not only to the rating staff but also to all other divisions and staff of the organization. RAM Ratings believes that all employees shall conduct themselves in a manner that will breed confidence and trust not only among its clients but also the market in general.

Structurally, the Code of Ethics is 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.

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1. MAINTAINING QUALITY AND INTEGRITY OF THE RATING PROCESS

A. Quality of the Rating Process

- 1.1 RAM Ratings has adopted, implemented and enforced written procedures which are covered by the Procedure Manual. The description of its rating process is available to the public at its website @ www.ram.com.lk Further, RAM Ratings shall explain its procedure to all its clients/prospective clients during its presentations. Further, it is also detailed in all proposals that are sent to its clients.
- 1.2 The rating assignment shall be carried out as prescribed in the Procedure Manual; by a team of at least two of its rating staff and all rating staff shall familiarize themselves of the procedures and documentation required. The analyst team shall ensure that the opinions they arrive at are based on a thorough analysis of all information known to them that is relevant to their analysis according to RAM Ratings' rating methodology.
- 1.3 All ratings shall be carried out in accordance with RAM Ratings' published rating methodologies which are based on internationally accepted methodologies. Where methodologies are not available, the analysts shall work out the methodology in consultation with the CEO and RAM Ratings' technical team and these shall, wherever possible, be based on internationally accepted methodologies. Once introduced the methodology shall be followed consistently by all RAM Ratings analysts and shall become part of RAM Ratings' standard methodology.
- 1.4 RAM Ratings has formulated scoring systems based on the methodology, to ensure that in-depth analysis is carried out, to achieve consistency and to ensure results in ratings that can be subjected to some form of objective validation based on historical experience. Hence, every assignment shall be scored using the scoring sheets prior to assigning a rating, and in scoring; the analytical team shall ensure that the scores are compared with peers.
- 1.5 All rating actions shall be determined exclusively by rating committees convened to determine such rating actions. Each rating committee shall be composed of independent people who, individually or collectively, have appropriate knowledge and experience in developing a rating opinion for the type of rating being considered. All members of the committee shall be from RAM Rating Service's senior rating staff.
- 1.6 Analysts are prohibited from disclosing to third parties, any internal committee discussions, committee memberships or other internal deliberative discussion as this information is privileged and kept confidential to protect the candor of the rating process. Ratings are the opinions of RAM Ratings, and are determined by unanimous vote, by the rating committee and not by any individual analyst.

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- 1.7 All rating staff including the rating committee shall be qualified and experienced individuals as prescribed under the Securities and Exchange Commission of Sri Lanka's ("SEC") regulation governing CRA.
 - 1.8 Ratings shall reflect all information known, and believed to be relevant and the rating committee shall be given all such information that is required and shall deliberate on all the information provided before arriving at a rating decision.
 - 1.9 All rating actions shall be determined exclusively by rating committees convened to determine such rating actions.
 - 1.10 Internal records shall be maintained to support credit opinions for a period of 5 years. Every analyst shall ensure that the client file contains the documents required as per the procedure manual and the compliance officer shall check each file on completion of the rating/annual review, and sign off compliance.
 - 1.11 No analysts shall agree to issue exploratory ratings or issue a rating or report without a mandate and agreement being first signed.
 - 1.12 Analysts shall take steps to avoid issuing any credit analyses or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of an issuer or obligation.
 - 1.13 A credit rating shall never be carried out by an individual. All analysts shall carry out the rating analysis in consultation with the associate assigned to them. In the absence of an associate, the rating shall be discussed with another analyst or the CEO, thus ensuring that the rating is unbiased and continuity is assured.
 - 1.14 A rating shall not be completed without holding management meetings with the client's senior management personnel and all meetings shall be attended by at least 2 of RAM Ratings' rating staff. Where there are branches, at least one branch shall be randomly selected for visiting and in doing so branches with material income shall be given preference.
 - 1.15 In order to ensure independence, the rating fee shall be paid in full on signing the agreement. The rating assigned shall be communicated to the client in writing and the rating rationale shall be released within 10 working days of assigning the rating.

B. Monitoring and Updating

- 1.1 Except for one-off private ratings that clearly indicate they do not entail ongoing surveillance, the analyst shall obtain information both monthly and quarterly. The quarterly information shall be analysed to see if there is any reason for a rating action. Further the analyst shall keep abreast of all major developments in the clients' business, through the monthly information provided, which qualifies for rating changes and ensure that rating action is taken in a timely manner as and when warranted.

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- 1.2 For published ratings, RAM Ratings shall take rating action when warranted and publish the rating without delay. No issuer/ entity shall prevent RAM Ratings from publishing or taking any action to publish reviews or rating actions once the rating is published by RAM Ratings or publicly used or in any way made available to third parties by the issuer/entity.
 - 1.3 Where interim rating actions are not warranted, the analyst shall carry out a review at least once every year. Such annual reviews shall cover information to the nearest quarter and the ratings shall be reaffirmed or revised as the case maybe. All such annual reviews shall be accompanied by a rating rationale.
 - 1.4 For published ratings, the analyst shall ensure that any discontinuation of the rating shall be notified in the press. The notice shall include the date from which such discontinuation is effective and the reason thereof.

C. Integrity of the Rating Process

- 1.1 RAM Ratings and its employees shall comply with all applicable laws and regulations including SEC's regulation, ACRAA's Code of Best Practices and IOSCO's Principles and Code of Conduct Fundamentals for rating agencies, and any other laws and regulation that may be or may become applicable.
- 1.2 RAM Ratings recruits only adequately qualified and experienced staff to the ranks of rating analysts and the company does not recruit individuals with demonstrably compromised integrity. Analysts shall ensure that they keep their professional membership intact as long as they are employed by RAM Ratings.
- 1.3 All analysts shall keep abreast of developments in the commercial world and ensure that they are ahead of changes in the economy and in the specific sectors their client organisations belong to. Further, the analysts shall keep themselves updated on all Accountings Standards, laws and regulations that are applicable to evaluating the sector/entity risk and keep abreast of any changes that may be made from time to time.
- 1.4 All employees shall deal fairly and honestly with issuers, investors, other market participants, and the public.
- 1.5 All rating staff shall maintain high standards of integrity and act with integrity in all dealings with clients.
- 1.6 RAM Ratings and its employees shall not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This shall not preclude RAM Ratings from developing prospective assessments used in structured finance and similar transactions.
- 1.7 Rating staff shall refrain from accepting any gifts in cash or kind, or any favors from its clients for awarding a rating. Further no member of staff shall use their influence in obtaining any gratifications, favors or discounts for any transactions.

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- 1.8 The compliance officer, who shall be part of RAM Ratings' administrative staff, shall be responsible for ensuring compliance with this code, rating procedure and laws governing RAM Ratings.
 - 1.9 Upon becoming aware that another employee or entity under common control with RAM Ratings is or has engaged in conduct that is illegal, unethical or contrary to RAM Ratings' code of conduct, RAM Ratings' employee/s shall report such information immediately to the CEO, so proper action may be taken. Employees are not necessarily expected to be experts in the law. Nonetheless, employees are expected to report the activities that a reasonable person would question.
 - 1.10 Any officer who receives such a report from an employee is obligated to take appropriate action. All employees are prohibited from discussing such matters with anyone but the CEO.
 - 1.11 RAM Ratings staff shall not in anyway retaliate towards an employee who in good faith reports illegal/unethical conduct or behaviour contrary to the code of conduct.

2. INDEPENDENCE AND AVOIDANCE OF CONFLICTS OF INTEREST

A. General

- 2.1 In taking rating actions, the analyst and the rating committee shall not forbear or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on RAM Ratings, an issuer, an investor, or other market participant.
- 2.2 All rating staff and analysts shall use care and professional judgment to maintain both the substance and appearance of independence and objectivity.
- 2.3 The determination of a credit rating shall be influenced only by factors relevant to the credit assessment.
- 2.4 The credit rating RAM Ratings assigns to an issuer or security shall not be affected by the existence of or potential for a business relationship between RAM Ratings (or its affiliates) and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship.
- 2.5 RAM Ratings does not engage in any business other than credit rating.
- 2.6 RAM Ratings' Board of Directors is independent and consists of professionals with no other business interest in Sri Lanka.
- 2.7 RAM Ratings shall at all times maintain the independence of the rating committee. RAM Ratings' Rating Committee is completely independent and consists of analysts and managers of its sister company, RAM Rating Services Berhad.

B. Procedures and Policies

- 2.8 All analysts shall bring to the notice of the CEO, any conflicts of interest that may arise with the clients assigned to them. For this purpose all rating staff shall give a list annually of relatives/friends (as defined hereafter) who hold positions of divisional head and above. Further, on being assigned a mandate, the analysts shall bring to the CEO's notice any conflict of interest that may exist in relation to the client.
- 2.9 Any rating staff with conflict of interest shall not deliberate or in any way get involved in the rating of an organization where such a conflict exists.
- 2.10 Staff shall report to the CEO and remuneration of the staff including the CEO shall not be based on the revenue earned by RAM Ratings.
- 2.11 All fees shall be decided by the CEO and fees shall be paid prior to the commencement of the assignment and shall be based on the value rated or the asset value of the entity.
- 2.12 RAM Ratings and its employees should not engage in any securities or derivatives trading presenting conflicts of interest with RAM Ratings' rating activities.

C. Analysts and Employee Independence

- 2.13 Reporting lines of employees and their compensation are structured to eliminate conflicts of interest. RAM Ratings' compensation or evaluation are not based on the amount of revenue that RAM Ratings derives from issuers that the analyst rates or with which the analyst regularly interacts.
- 2.14 RAM Ratings' employees shall not participate in or otherwise influence the determination of RAM Ratings' rating of any particular entity or obligation if the employee:
- o Owns securities or derivatives of the rated entity, other than holdings in diversified collective investment schemes;
 - o 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;
 - o 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
 - o Has a relationship by consanguinity or by law, who currently holds a position of influence (the Board, CEO or head of any division) in the rated entity; or

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- 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.
- 2.15 RAM Ratings' analysts and anyone involved in the rating process (or their spouse, partner or minor children) shall 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.
- 2.16 Employees shall be prohibited from soliciting money, gifts or favors from anyone with whom RAM Ratings does business and shall be prohibited from accepting gifts offered in the form of cash or any gifts exceeding Rs 30,000.00 monetary value.
- 2.17 Any 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 analytical responsibility), shall be required to disclose such relationship to the CEO.

3. RESPONSIBILITIES TO THE INVESTING PUBLIC AND ISSUERS

A. Transparency and Timeliness of Ratings Disclosure

- 3.1 RAM Ratings shall convey to the client the decisions regarding the entity/issue rating within the period specified in the rating agreement.
- 3.2 Where initial ratings/rationales are to be published, RAM Ratings shall publish the initial rating and rationale within 3 days of the client's request. Where the client uses the rating prior to RAM Ratings' publication, RAM Ratings shall forthwith, without prior notice, publish the rating and upload the rationale to its website @ www.ram.com.lk .
- 3.3 In the case of published ratings, to the extent reasonably feasible and appropriate, prior to issuing or revising a rating, RAM Ratings shall provide the issuer advance notification of all rating actions and a copy of the rationale where available. RAM Ratings provides such notification and related commentary solely to allow the issuer to check for factual accuracy or the presence of non-public information. RAM Ratings shall duly evaluate any comments made by the issuer, however, the issuer may not propose any drafting or editorial changes to the commentary provided, other than to correct factual errors or remove references to non-public information. Nevertheless RAM Ratings reserves the right to publish the revisions, reviews, rating watch or withdrawals of the rating without recourse to the client.
- 3.4 RAM Ratings shall always maintain complete editorial control over all rating actions, related commentaries and all of its other published materials, including all reports, criteria, methodologies, ratings definitions and other

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- policies and procedures. This control shall extend to when, and whether; RAM Ratings shall take, or publish, any rating action.
- 3.5 For published ratings, RAM Ratings shall keep the rated entities under constant supervision and review the performance on a quarterly basis. Where there are no interim rating changes RAM Ratings will publish its annual review within 15 months of the previous rating. RAM Ratings reserves the right to disseminate such publications without prior notice to the issuer/entity.
 - 3.6 For a published rating, where a rating action is required the revised rationale and press notice shall be given without delay. It is imperative that relevant action is taken in a timely manner and hence all rating changes shall be treated as priority. RAM Ratings shall disseminate such rating revisions, wherever it thinks appropriate, without prior notice to the issuer/entity.
 - 3.7 Where a rating watch is warranted, RAM Ratings shall publish the rating watch (for published ratings) within 2 days of receiving such information. RAM Ratings shall keep the issuer/entity informed of such action, however, it reserves the right to publish such a rating watch without prior notice to the issuer/entity.
 - 3.8 RAM Ratings shall publish the rating history of each of its ratings in the rationale and all rationales of published ratings shall be made available at RAM Ratings' website free of charge.
 - 3.9 RAM Ratings reports its procedures, methodologies, rating scales, time horizon and assumptions on its website @ www.ram.com.lk.
 - 3.10 RAM Ratings shall explain in its press releases and reports the key elements underlying the rating opinion.
 - 3.11 Where feasible and appropriate, prior to issuing or revising a rating, RAM Ratings shall issue a draft rationale for perusal by the issuer/entity, affording them an opportunity to clarify factual misconceptions or information that RAM Ratings would wish to be made aware of in order to produce an accurate rating. RAM Ratings provides such notification and related rationale to allow the issuer to check for factual accuracy or the presence of non-public information. RAM Ratings shall duly evaluate any comments made by the issuer, however, the issuer may not propose any drafting or editorial changes to the commentary provided, other than to correct factual errors or remove references to non-public information.
 - 3.12 Where in a particular circumstance RAM Ratings has not informed the issuer prior to issuing or revising a rating, RAM Ratings shall inform the issuer of the rating revision as soon as practically possible.
 - 3.13 RAM Ratings shall, where possible, publish 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 CRAs.

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- 3.14 RAM Ratings shall not carry out any unsolicited ratings.
 - 3.15 RAM Ratings shall carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes and shall put a notice of such change in its website. Further, RAM Ratings shall notify of any changes in its rating symbols/scales by press notification.

B. The Treatment of Confidential Information

- 3.16 RAM Ratings adopts procedures and mechanisms to protect the confidential nature of information shared with them by issuers. Unless otherwise permitted by applicable laws or regulations.
- 3.17 RAM Ratings and its employees shall not disclose confidential information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise.
- 3.18 Analysts shall not disclose to third parties any internal committee discussions and the committee membership as well as any other internal deliberative discussion as this information is privileged and kept confidential to protect the candor of the rating process.
- 3.19 RAM Ratings shall use confidential information only for purposes related to its rating activities.
- 3.20 RAM Ratings' analysts shall take all reasonable measures to protect all property and records belonging to or in possession of RAM Ratings from fraud, theft or misuse.
- 3.21 RAM Ratings' employees shall be prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.
- 3.22 In preservation of confidential information, RAM Ratings' employees shall familiarize themselves with the internal policies maintained, and certify their compliance annually in writing.
- 3.23 RAM Ratings' employees shall not selectively disclose any non-public information about rating opinions or possible future rating actions of RAM, except to the issuer or its designated agents.
- 3.24 RAM Ratings' employees shall not share confidential information entrusted to them with employees of any affiliated entities that are not CRAs.
- 3.25 RAM Ratings' employees shall not use or share confidential information within the company except on a "need to know" basis.
- 3.26 RAM Ratings' employees shall not use or share confidential information for the purpose of trading securities, or for any other purpose except for the conduct of company business.

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- 3.27 RAM Ratings' rating staff shall not seek employment with any other rating/credit evaluation company /agency carrying out business in Sri Lanka (directly or indirectly) for a period of one (1) year from the date of termination or resignation.
- 3.28 RAM Ratings' rating staff shall not join any organization that is a direct competitor of any entity of which they possess confidential and sensitive information for a period of one year from the time they get access to such information.

C Disclosure of the Code of Conduct and Communication with Market Participants

- 3.29 RAM Ratings shall make available the Code of Conduct on its website.
- 3.30 This Code of Conduct shall be an integral part of its agreement and shall supersede any clauses in the rating agreement.
- 3.30.1 RAM Ratings' Code of Conduct shall be given to all clients as part of its rating agreement.
- 3.31 RAM Ratings' Code of Conduct shall be changed as and when required by IOSCO or ACRAA. All such changes will be communicated to the clients.

Definitions

- Publishing a rating:** Conveying to the public domain through print or electronic media and uploading the press release and/or rationale to RAM Ratings' /RAM Ratings' website.
- Reviews:** Annual review carried out to reaffirm or to revise ratings or rating outlooks.
- Rating outlook:** Evaluation of the likely direction of a rating over the intermediate term, encompassing 6-months to 2-year time horizon.
- Rating action:** Periodic revision of ratings issued if there is a change in the credit profile of the client or change in the business environment. This also includes changes in rating outlooks and rating watches.
- Published Rating:** A rating once published in the media is considered a published rating.
- Conflict of interest:** One shall be deemed to have conflict of interest in the following situations:
- Have an interest in the company in the form of ownership of shares, bonds, debentures or other long-term or short-term instruments constituting over Rs 2.5 million or 5% of the value of the issue whichever is lower.
 - Have a relative by consanguinity in the Ratee organization holding a position including and above Head of Division. For this purpose the relationship shall include father, mother, brother, sister, siblings of both parents and their issues, Grandfather, Grandmother, Children and Grandchildren.
 - Have a relative by marriage or law in the Ratee organization holding a position including and above Head of Division. For this purpose, the relationship shall include Spouse, Partner, Father-in Law, Mother-in-Law, Brother-in-Law, Sister-in –Law, Son-in –Law and Daughter-in-Law.