



# ARC Ratings, S.A.

[www.arcratings.com](http://www.arcratings.com)

## 2017 Transparency Report

March 2018

As foreseen in Part III, Section E of Annex I to Regulation (EC) No. 1060/2009 of the European Parliament and of the Council, of 16 September 2009 (Regulation), ARC Ratings, S.A. (ARC Ratings)' Board of Directors hereby discloses ARC Ratings' 2017 Transparency Report.

## 1) LEGAL STRUCTURE AND OWNERSHIP OF ARC RATINGS

ARC Ratings results from the redenomination on October 7, 2013 of Companhia Portuguesa de Rating, S.A. (CPR), a company formed in 1988 as a public limited company, a status that it maintains.

ARC Ratings sole shareholder is ARC Ratings Holdings Limited, a company headquartered in the British Virgin Islands.

	<i>N° of Shares Held</i>	<i>% of Total</i>
<b>ARC Ratings Holdings Limited</b>	100,000	100.00%
<b>TOTAL</b>	100,000	100.00%

ARC Ratings Holdings Limited is a holding company that only holds the shares of ARC Ratings and whose share capital is 50% owned by Enigma Investment Holdings Limited, a private equity investment firm, and 50% split in equal parts by the following five companies:

- CARE Ratings Limited (formerly known as Credit Analysis and Research Limited), the second largest rating agency in India;
- Global Credit Rating Company Limited (GCR), the largest rating agency in Africa;
- Malaysian Rating Corporation Berhad (MARC), vice-leader in the Malaysian rating market;
- SaeR – Sociedade de Avaliação Estratégica e Risco, Lda., a reference consulting firm in Portugal and former owner of the entire share capital of CPR; and
- SR Rating Group – a rating agency of reference in the Brazilian market.

## 2) DESCRIPTION OF THE INTERNAL CONTROL MECHANISMS INTENDED TO ENSURE THE QUALITY OF ITS RISK RATING ACTIVITIES

ARC Ratings has the most relevant procedures and methodologies for its activity, including the internal control mechanisms designed to ensure the quality of its activities of risk rating, systematized and presented in ARC Ratings'

Organisation and Procedures Manual, including ARC Ratings' Code of Conduct. ARC Ratings' Code of Conduct and ARC Ratings' methodologies presentations for the major rating segments are available at the company's website ([www.arcratings.com](http://www.arcratings.com)).

In 2017 ARC Ratings' Organisation and Procedures Manual assigned the following responsibilities:

- To ARC Ratings' Board of Directors, the following responsibilities, among others:
  - verify compliance with the principles set out in ARC Ratings' Code of Conduct;
  - approve, in writing, any exemptions to compliance with the principles established in ARC Ratings' Code of Conduct and related methodologies and procedures;
  - receive communications on actual or possible situations of conflict of interest from rating analysts, members of ARC Ratings' Executive Council or Board of Directors, instructing the Executive Council on the necessary measures, where appropriate, to eliminate, or alternatively, to manage and disclose such conflicts; in extreme cases, namely a situation liable of undermining compliance with the Regulation, the Board of Directors should communicate that situation to the competent authorities;
  - maintain a record of actual or potential situations of conflict of interest and of all significant threats to the independence of ARC Ratings' rating activity;
- To ARC Ratings' Executive Council, the following responsibilities, among others:
  - receive communications on exemptions from compliance with the procedures set out in ARC Ratings' Organisation and Procedures Manual and justification therefore, taking the measures deemed necessary;
  - verify compliance with the methodologies and procedures set out in ARC Ratings' Organisation and Procedures Manual;
  - implement the necessary measures to eliminate, or alternatively, to manage and disclose situations of conflict of interest.
- To ARC Rating's Risk Committee, the following responsibilities, among others:
  - to report on risk strategy, including the oversight of current risk exposures within the ARC organisation;
  - to understand, question and measure the full spectrum of risks faced by ARC, be they operational, methodological, reputational or financial, and put a timely action plan in place to eliminate or manage such risks as and when they occur;
  - to create an effective risk management framework and embedded a risk-focused culture across the whole of the ARC organisation.

Note that the communication made by each of ARC Ratings' employees concerning compliance with ARC Ratings' Code of Conduct and related methodologies and procedures is reinforced through the delivery by each one of them, prior to

the end of January of each year, of a letter addressed to ARC Ratings' Board of Directors, where each employee:

- declares he/she is aware of ARC Ratings' Organisation and Procedures Manual in force;
- declares he/she is not aware of exemptions to compliance with ARC Ratings' Code of Conduct and related methodologies concerning himself/herself or which came to his/her knowledge concerning other ARC Ratings' employees or persons or entities that provide services to ARC Ratings and which, by reason of that provision of services, may have access to confidential information in ARC Ratings' possession, or, whenever such exemptions occurred, that he/she communicated and/or justified such exemptions to the competent bodies (ARC Ratings' Executive Council and ARC Ratings' Board of Directors);
- declares that it was not considered necessary to make changes and/or revisions to ARC Ratings' Organisation and Procedures Manual, or that, whenever such need arose, he/she immediately informed ARC Ratings' Executive Council of that situation.

In compliance with what was defined in ARC Ratings' Organisation and Procedures Manual, during 2017 ARC Ratings assigned ratings and outlooks:

- through multi-perspective Rating Panels, composed of composed of a quorum of five, which are selected from the following personnel: ARC Ratings' Chief Ratings Officer, ARC Ratings Sector Head (if not the CRO), Lead Analyst, an independent analyst, one or more analysts from the same sector or an additional independent analyst from one of our domestic credit rating agencies within the jurisdiction or region of the rated entity and one randomly chosen senior analyst of a corresponding department reporting to another Network Partner or other ARC Sector.
- based on the Preliminary Report for Discussion and the corrections suggested by the entity being rated, and results of the analysis discussed in the rating panel (which, as such, is qualitative and subjective) which sought to summarise in the rating and respective outlook the set of risks detected in the analysis.

Hence, when assigning a rating, the members of the Rating Panel had the possibility to confirm first-hand the application of the rating methodologies established in ARC Ratings' Organisation and Procedures Manual by the analysts who took part in the analysis work.

The senior analysts of ARC's network partners who participate in ARC's rating panels, sign written commitments to obey Regulation (EC) n° 1060/2009 of the European Parliament and of the Council and to ARC Ratings' Code of Conduct, to maintain strict and permanent confidentiality concerning non-public information which may come to their knowledge as a result of their intervention in ARC Ratings' Rating Panels and not to use such confidential information to their benefit or to the benefit of others, namely in any commercial or financial operations.

It should be stressed that there is a complete separation between the commercial activity and the rating assignment activity, with the head of the commercial area (which is completely excluded from any rating analysis / assignment activity) being entrusted with the function to determine the financial compensation (and other terms of the provision of services) that ARC Ratings receives for services rendered from the entities whose financial commitments are being rated, in order

to make this proposal completely independent of ARC Ratings rating activities.

The role of monitoring the compliance of ARC ratings' current activity in its various aspects is the responsibility of Mrs Sally Clifton. These functions are carried out through the elaboration of a "verification plan" and "checklist" defined at the start of each year and executed throughout the year (reviewed and, if necessary, adjusted semi-annually). This supervision function is thus personalised.

### **3) STATISTICS ON STAFF ALLOCATION TO NEW CREDIT RATINGS, CREDIT RATING REVIEWS, METHODOLOGY OR MODEL APPRAISAL AND MANAGEMENT**

ARC Ratings' Board of Directors was elected on 27 of March 2015 for a three year mandate and is currently composed by six members:

- Mr. Mohd Razlan Bin Mohamed, Non-Executive Director and Chairman of the Board of Directors, elected for this position on 25 November 2016;
- Mr. David Charles Peter King, Chief Executive Officer, who was elected on 29 of July 2015;
- Mr. José Poças Esteves, Non-Executive Director;
- Mr. Marc Bevan Joffe, Non-Executive Director, who was elected on 8 of September 2015;
- Mr. Richard O Wilson, Executive Director, who was elected onto the Board of Directors on 21 of January 2016; and
- Mr. Rajesh Mokashi, Non-Executive Director, who was elected onto the Board of Directors on 25 of November 2016.

Dr. Paulo Rabello de Castro, who was a Non-Executive Director of the Board, retired from the Board on 6 of June 2017.

In 2017 ARC Ratings had on average twelve employees at its service (M/F), with an average of ten of them hired on a permanent basis ("open-ended employment contract"). Three were in management/commercial positions, one in compliance, five in rating analyst positions and the remaining three in support / secretariat functions.

Given its small staff structure, in 2017 ARC Ratings did not allocate different staff members to new risk ratings and to reviews of existing risk ratings, in accordance with the exemption granted by the European Securities and Markets Authority (ESMA) under Article 7 (4) of its Regulation.

In 2017 ARC Ratings maintained its policy of assigning each new mandate awarded to its various analysts according to their knowledge and availability in each moment. When distributing new rating processes, ARC Ratings seeks to take into account their object as well as existing synergies with activities previously developed by its rating analysts. As a rule, in 2017 the staff members involved in the rating and follow-up processes of the same entity were the same.

According to ARC Ratings' Organisation and Procedures Manual, the function of assessing and reviewing the methodologies and models used is assigned to the Internal Review Officer.

In addition to its responsibility for the development and approval of ARC Ratings' Organisation and Procedures Manual and all changes and/or revisions thereto, ARC Ratings' Executive Council is also responsible for making sure that the methodologies and procedures set out in this Manual are complied with, and for receiving from ARC Ratings' employee's general proposals on its alteration / revision.

## 4) DESCRIPTION OF THE RECORD KEEPING POLICY

With regard to the confidential information used by ARC Ratings, in 2017 all its employees followed the principles set out below, which are included in ARC Ratings' Organisation and Procedures Manual and are either established or arise from ARC Ratings' Code of Conduct:

- Not to disclose the names of the entities whose financial commitments are at any given time being rated by ARC Ratings;
- Maintain records of the elements indicated below for at least five years after the maturity of the financial commitment subject to rating or after the date when the rating ceased to be valid (was discontinued), and for a further period of three years if ARC Ratings' registration pursuant to the Regulation being revoked:
  - the records documenting the methodologies and procedures used by ARC Ratings to assign each rating;
  - the internal records and files, including confidential information, work papers, and (confidential) preliminary reports used as the basis for the assignment of each rating;
  - copies of the internal and external communications, including electronic communications, received and sent by ARC Ratings and its employees in connection to rating activities;
- To take all measures to ensure that the confidential information made available to ARC Ratings by the entities whose financial commitments are subject to rating as well as information related to the rating processes is adequately kept and cannot be used unduly or in a fraudulent manner;
- To disclose confidential information concerning credit ratings or changes in these ratings only to the entities whose corresponding commitments were rated;
- Not to share ARC Ratings confidential information with employees of companies under a group relationship, and to only share this information among themselves to the extent necessary for the assignment of ratings.

Furthermore, during 2017 ARC Ratings' premises were located in two office complexes with on-site security, its information system is "cloud" based and protected by access passwords. This system guarantees the preservation of the information at all times, with the supplier guaranteeing permanent and redundant back-ups. On top of this ARC Ratings also performs daily backups to a dedicated computer hosted in ARC's Lisbon office.

For all entities whose financial commitments are rated by ARC Ratings, confidentiality is guaranteed through

confidentiality Agreements signed within ARC employees "Employment Contracts" and are bound to maintain strict and permanent confidentiality under the law about any information to which he/she may have access in the course of their activity with regard to any company, and shall not use such information to their own advantage or that of others. For external rating members, ARC Ratings' receives written commitments for all external network collaborators. This is in accordance with the terms and procedures established in ARC Ratings' Organisation and Procedures Manual.

Finally, ARC Ratings' Organisation and Procedures Manual is known and permanently available to each of ARC Ratings' employees, and every year each of them declares his/her knowledge of the Manual, and states that he/she is not aware of any exemptions to compliance with ARC Ratings' Code of Conduct and related methodologies and procedures, or when aware, that he/she has informed on such exemptions (this has been done by all employees since the beginning of 2010, the year when this obligation was implemented).

For individuals and entities that provide services to ARC Ratings and as a result of that service provision may have access to confidential information, there exists standard confidentiality commitments drawn in accordance with the terms and procedures established in ARC Ratings Organisation and Procedures Manual.

## 5) OUTCOME OF THE ANNUAL INTERNAL REVIEW OF ITS INDEPENDENT COMPLIANCE FUNCTION

As mentioned above, the functions of monitoring the compliance of ARC Ratings' current activity, in its various aspects, is the responsibility of Mrs. Sally Clifton. These functions are carried out through the elaboration of a "verification plan" and a "checklist" defined at the start of each year and executed throughout the year (reviewed and, if necessary, adjusted semi-annually).

Throughout 2017, ARC's Internal Review Officer has been working on updating information and processes in relation to the Validation and Review of Methodologies and is on schedule to implement the final changes and completing the related documentation by end of 1st Qtr 2018.

ARC have looked at the process of a rating review and implemented an "ARC Checking Sheet", so that we can monitor/audit all processes of the rating or rating review during and at the end of the transaction. This document enables our Compliance Department being able to carry out audits and verify that our client/issuer folders on the ARC OneDrive contain the correct information, documentation, data and communications of the transaction for regulatory purposes. This document has worked well throughout 2017 and is in constant use by all Analysts. Refresher training on the use of this document was conducted in November 2017.

ARC's Compliance Department throughout 2017 has been working with the Monitoring and Surveillance Department to ensure that this area of the organisation is working effectively. Communication and the implementation of working spreadsheets enables the Surveillance Department to ensure timely and effective monitoring is in place.

ARC's Management Team during the later part of 2017 put a working party together, to ensure that ARC is compliant

and within regulation post Brexit. Discussions have been held with ESMA to ensure that the contingency plans ARC have implemented meets their current regulatory requirements. ARC will be developing their current staffing requirements throughout 2018 to accommodate Brexit and natural growth of our organisation.

## 6) MANAGEMENT AND ANALYST ROTATION POLICY

As ARC meets the conditions foreseen in Article 6 (3) of the Regulations the agency, during the registration process as a Credit Rating Agency (CRA) with the Committee of European Securities Regulators (CESR)/ESMA, requested exemption from the requirements established in Article 7 (4) of the Regulation concerning the rotation or risk rating analysts. This exemption was granted by ESMA in the registration obtained on 26 August 2011.

Therefore, this point was not applicable in 2017.

Concerning the management of ARC Ratings' credit risk rating analysts in 2017 see point 3) above.

## 7) FINANCIAL INFORMATION ON THE REVENUE OF ARC RATINGS DIVIDED INTO FEES FROM CREDIT RATING AND NONCREDIT RATING SERVICES AND OTHER ACTIVITIES, WITH A COMPREHENSIVE DESCRIPTION OF EACH

In addition to assigning credit risk ratings, ARC Ratings can also perform credit assessments, risk analysis (without assigning any rating) and provide, as a non-regular ancillary activity and based on its risk analysis know-how, analysis services to entities that do not have financial commitments subject to credit risk rating assigned by ARC.

In 2017 the breakdown of ARC Ratings turnover (0,9 million euros) between credit risk rating activities, risk analysis and ancillary activities was the following:

Credit risk rating	100.0% of turnover
Credit Assessment	0.0% of turnover
Risk analysis	0.0% of turnover
Ancillary activities	0.0% of turnover

The breakdown of the company's turnover by rating segment is the following:

Corporate rating	29.6% of turnover
Structured finance rating	70.4% of turnover

The breakdown of the company's turnover by geographical origin is the following:

United Kingdom	50.20% of turnover
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Portugal	17.25% of turnover
Gibraltar	9.23% of turnover
Ireland	7.50% of turnover
Luxemburg	6.13% of turnover
Australia	4.36% of turnover
France	2.02% of turnover
Germany	1.32% of turnover
Bermuda	1.13% of turnover
Belgium	0.87% of turnover

## **8) GOVERNANCE STATEMENT WITHIN THE MEANING OF ARTICLE 46-A OF COUNCIL DIRECTIVE 78/660/EEC OF 25 JULY, CONCERNING THE ANNUAL ACCOUNTS**

### **A) SIGNIFICANT DIRECT OR INDIRECT SHAREHOLDINGS**

See point 1) above.

### **B) THE HOLDERS OF VALUES OF SECURITIES THAT CONFER SPECIAL CONTROL RIGHTS AND DESCRIPTION OF THESE RIGHTS**

In 2017 the Company did not issue securities conferring special control rights.

### **C) ANY RESTRICTIONS ON VOTING RIGHTS, SUCH AS LIMITATIONS OF THE VOTING RIGHTS OF HOLDERS OF A GIVEN PERCENTAGE OR NUMBER OF VOTES, DEADLINES FOR EXERCISING VOTING RIGHTS, OR SYSTEMS WHEREBY, WITH THE COMPANY'S COOPERATION, THE FINANCIAL RIGHTS ATTACHING TO SECURITIES ARE SEPARATED FROM THE HOLDING OF SECURITIES**

There are no restrictions to voting rights in ARC Ratings current articles of association, with the exception of the prohibition of voting by correspondence.

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## **D) THE RULES GOVERNING THE APPOINTMENT AND REPLACEMENT OF BOARD MEMBERS AND THE AMENDMENT OF THE ARTICLES OF ASSOCIATION**

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In addition to the Portuguese legal and regulatory provisions, article 16 of ARC Ratings articles of association provides that "The members of all corporate bodies shall be elected every three years by the general meeting of shareholders" and article 10 determines that "The company's management is under the responsibility of a board of directors composed by a minimum of 5 (five) and a maximum of 15 (fifteen) members, including a chairman."

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## **E) THE POWERS OF BOARD MEMBERS, AND IN PARTICULAR THE POWER TO ISSUE OR BUY BACK SHARES**

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As set forth in article 11 of ARC Ratings' articles of association "The board of directors is entrusted with the broadest powers of management of the company's business and is responsible for the performance of all necessary acts in the pursuit of the activities comprising its object which are not the competence of other corporate bodies, namely:

- a) actively and passively represent the company in and out of court, with the powers to propose, enter a plea, withdraw from or compromise on any lawsuits, or bind the company in arbitration; and
- b) appoint attorneys for the practice of certain acts, defining the extension of the respective powers of attorney."

The Board of Directors has no power to issue or buy back shares. Such capacity belongs to the General Assembly.

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## **F) UNLESS THE INFORMATION IS ALREADY FULLY PROVIDED FOR IN NATIONAL LAWS OR REGULATIONS, THE OPERATION OF THE SHAREHOLDER MEETING AND ITS KEY POWERS, AND A DESCRIPTION OF SHAREHOLDERS RIGHTS AND HOW THEY CAN BE EXERCISED**

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In addition to the Portuguese legal and regulatory provisions, article 7 of the articles of association provides that:

- "1. The general meeting of shareholders is formed by all the shareholders owning shares registered in their name in the company's register of shares.
2. General meetings shall be convened in accordance with the formalities stated in the Companies Code, save in the circumstances set out in article nine, number one.
3. To each share corresponds one vote.
4. The exercise of vote by correspondence is prohibited.

And, in accordance with article 9:

- " 1. The general meeting of shareholders may take unanimous written resolutions or convene without the accomplishment of the prior notice stated in the law in case all shareholders attend to the meeting and express said intention.
2. Resolutions signed in writing by shareholders shall be valid and effectual as if passed at a meeting of shareholders.
3. The general meeting is the sole corporate body empowered to resolve on the following matters besides those stated in the law:
  - i) any amendment to the company's articles of association;
  - ii) any creation, issue, or increase of the issued share capital of the company;
  - iii) the issue by the company of redeemable or unredeemable preference shares without voting rights;
  - iv) any merger or dissolution of the company;
  - v) the creation of any encumbrance over the company's assets or the provision of any surety ship or guarantee;
  - vi) the incurring of any debt, the establishment of any loan facility and the issue of bonds;
  - vii) the issue by the company of any securities other than bonds;
  - viii) the disposal of 10% (ten percent) or more of the company's business, property or assets (including its shareholding in subsidiaries);
  - ix) the establishment or variation of any share incentive or share option scheme or the incurring of material non-budgeted expenditure;
  - x) the modification of the company's object, engaging in any business activity other than the object established in article three, number one;
  - xi) the entering into of any contract or transaction except in the ordinary course of business;
  - xii) the appointment of the board of directors and of its chairman; and
  - xiii) the appointment or removal of the auditor, of the respective deputy, of the supervisory board or of any of its members whenever applicable."

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## **G) THE COMPOSITION AND OPERATION OF THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES**

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ARC Ratings' Board of Directors was elected in 27 of March 2015 for a three year mandate and is currently composed by:

- Mr. Mohd Razlan Bin Mohamed, Non-Executive Director and Chairman of the Board of Directors, elected for this

position on 25 November 2016;

- Mr. David Charles Peter King, Chief Executive Officer, who was elected on 29 of July 2015;
- Mr. José Poças Esteves, Non-Executive Director;
- Mr. Marc Bevan Joffe, Non-Executive Director, who was elected on 8 of September 2015;
- Mr. Richard O Wilson, Executive Director, who was elected onto the Board of Directors on 21 of January 2016; and
- Mr. Rajesh Mokashi, Non-Executive Director, who was elected onto the Board of Directors on 25 of November 2016, replacing Mr. Desh Raj Dogra.

Regarding the functioning, article 10 of the articles of association provides that:

2. Other than in the cases foreseen in the law or as required by the interests of the company, the board of directors shall meet at least on a quarterly basis.
3. The quorum for the board meetings shall only be valid provided that a majority of its members attend the meeting, unless the board is composed by a total of 5 (five) members, in which case the attendance by 4 (four) directors is mandatory to form a quorum.
4. Resolutions are passed by absolute majority of the votes.
5. Directors may confer powers to another director to act / represent him/her during his/her absence, which shall be presented in a written form and addressed to the chairman of the board.
6. The board of directors shall meet at written request of its Chairman or of any other two directors.
7. Directors may convene by telephone, close circuit television or other real time electronic means or audio or audio-visual communication and a resolution passed at such virtual conference, notwithstanding that the directors are not present together in one place at the time of the conference, shall be deemed to have been passed at a meeting of the board duly called and constituted on the day on which and at the time at which the conference was so held.
8. Resolutions signed in writing by all directors shall be valid and effectual as if passed at a meeting of directors.
9. If a director is absent from meetings of the board for a six months period without a justification accepted by said corporate body, the board shall declare his office as vacated. The replacement of said director shall take place according to article three hundred ninety three of the Companies Code. "

And, in accordance with Article 11:

"The board of directors is entrusted with the broadest powers of management of the company's business and is responsible for the performance of all necessary acts in the pursuit of the activities comprising its object which are not the competence of other corporate bodies, namely:

- a) actively and passively represent the company in and out of court, with the powers to propose, enter a plea, withdraw

from or compromise on any lawsuits, or bind the company in arbitration; and

b) appoint attorneys for the practice of certain acts, defining the extension of the respective powers of attorney.”

Finally, article 12 of the articles of association provides that:

”1. The company shall be legally bound:

- a) by the signature of 2 (two) members of the board of directors to whom the powers for so doing have been formally delegated; or
- b) by the signature of a single member of the board of directors to whom the powers for so doing have been formally delegated; or
- c) by the signature of appointed proxies, acting alone or jointly, subject to the scope and in accordance with the terms of the corresponding mandate.

2. Ordinary acts involved in the day-to-day running of the company shall require only the signature of one member of the board of directors or the signature of one appointed proxy, subject to the scope and terms of the corresponding mandate.”

The supervision of the company, as set forth in article 13 of ARC Ratings’ articles of association “may be the responsibility of a supervisory board or of a single auditor and the respective deputy auditor”, with the powers and responsibilities provided for by the law. The supervisory board must have a total of three members and one alternate member and the General Meeting should appoint its president.

Mr. Daniel Jorge Gonçalves Vicente, Official Auditor no. 1041, was ARC Ratings’ Single Auditor and Statutory Auditor during 2017.