



Brickwork Ratings

# Policy on Managing Conflict of Interest

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## PERSONAL TRADING POLICY

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## POLICY ON MANAGING CONFLICT OF INTEREST

### 1. Introduction

This policy is based on SEBI Circular No. CIR/MIRSD/5/2013, dated August 27, 2013, which advises Credit Rating Agencies (CRAs) to establish a policy to identify, eliminate, and manage conflict of interest situations on the lines of Principle 8 of the International Organization of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulations.

To comply with this regulation and avoid conflicts of interest or any appearance of impropriety, Brickwork Ratings (BWR) and its employees must strictly adhere to this policy. The policy on Managing Conflict of Interest outlines the various conflicting situations a rating business faces and procedures established to address them. This policy should be reviewed in conjunction with other internal policies and procedures governing BWR's rating activities, code of conduct and personal trading policies.

To maintain the integrity of the rating activity, BWR ensures that every rating is assigned as per a documented rating process and criteria. These ratings rely solely on the information provided by issuers and are not influenced by any business relationships. Although we cannot eliminate conflicts of interest, we can effectively reduce them. BWR believes that clear disclosures and a robust governance structure, including codes of conduct and strong firewall mechanisms, are critical to managing conflicts.

### 2. Types of Conflict of Interest

Broadly, the following types of conflicts of interest are intrinsic to the rating operations:

#### 2.1. Conflict of Interest Inherent in the "Issuer Pays" Business Model

The prevalent business model among credit rating agencies is the "Issuer pays" model, wherein the evaluated entity compensates the agency for its rating services. This payment arrangement can give rise to conflicts of interest, as the rating agency may feel pressured to offer favourable ratings to retain or attract business from issuers.

When a company, government, or any other entity seeks to issue bonds or other debt instruments, they may approach a BWR for a credit rating. The agency then assesses the issuer's creditworthiness by analyzing factors such as financial performance, industry trends, and economic conditions. Under the issuer pays model, the rated entity remunerates the credit rating agency for its services,

typically upfront. Subsequently, based on its evaluation, the agency assigns a credit rating to the issuer, indicating the level of risk associated with its debt instruments.

This assigned rating is then made publicly available for investors and other market participants.

Although the issuer pays model is standard in the credit rating industry, it has faced criticism for its potential to compromise the independence and impartiality of credit ratings. Critics contend that rating agencies may be inclined to provide excessively optimistic ratings to maintain issuer relationships and secure future business opportunities.

To mitigate concerns regarding conflicts of interest, BWR has introduced various policies to ensure transparency and accountability and does not solicit mandates through assurances of particular ratings to issuers.

## **2.2. Conflict of Interest arising between CRA and Financial Institution Promoter**

Inherent conflicts can arise between BWR and its promoter due to the promoter's dual role as a financial institution and promoter. These relationships can create a bias or the perception of bias while providing ratings to the borrowers of the promoter. To mitigate these conflicts of interest, BWR has implemented stringent guidelines for independence, transparency, and accountability in the rating process.

## **2.3. Conflict of Interest for Employees**

Employees at credit rating agencies often encounter various conflicts of interest due to the nature of their roles and the financial industry's framework. These conflicts may include

- 2.3.1. **Financial Interests:** Employees might have personal financial stakes linked to the performance of rated securities or issuers, including ownership of securities issued by the entity being rated, made by self, spouse or dependents potentially leading to biased ratings for personal gain.
- 2.3.2. **Access to Confidential Information:** Employees may possess non-public information about rated entities, which poses a risk of misuse for personal benefit or to favour others.
- 2.3.3. **External Directorships:** Holding a directorship or employment position—whether full-time, part-time, or as a consultant, with the entity being rated, either individually or jointly, involving oneself, spouse, children, dependents, or as a member of a Hindu Undivided Family (HUF).

- 2.3.4. The company's interests must always be a top priority for employees. This entails conducting business with honesty and integrity, particularly when managing actual or potential conflicts of interest arising from personal and professional relationships. BWR has various policies such as the Code of Conduct Policy and the Personal Trading Policy, to address such conflicts to maintain its credibility in the market and ensure the independence of its staff.

### 3. Managing and Addressing Conflict of Interest

BWR firmly believes that effective conflict management necessitates adequate disclosure, implementation of codes of conduct, and establishment of robust firewall mechanisms.

#### 3.1. Transparency and Disclosures

BWR maintains that openness and comprehensive disclosure regarding its operations, methodologies, and rating criteria empower the market to evaluate the integrity of a rating agency. If market participants suspect any compromise in rating integrity due to business considerations, they can appeal to BWR. To uphold transparency, BWR provides the following disclosures:

##### 3.1.1. Transparency and Disclosures to Mitigate Conflicts in the Issuer Pays Business Model

BWR shall publicly disclose the general nature of its compensation arrangements with the rated entities.

- 3.1.1.1. Transparency The fees for ratings are predetermined by BWR and are independent of the outcome or level of the rating. BWR establishes these fees in advance, unrelated to the rating assigned to the instruments or securities. The payment to BWR is not connected to the success or failure of the proposed issue.
- 3.1.1.2. BWR has structured distinct teams for business development, criteria development, and analytics. This organizational model safeguards the integrity of rating criteria formulation and rating assignment execution, shielding them from market influences and undue influence from the client.
- 3.1.1.3. Analyst compensation is not linked to the rating fees paid by issuers, eliminating any potential conflict of interest for the team handling the rating assignment.

- 3.1.1.4. BWR analysts who participate in a credit rating action will not participate in discussions with rated entities regarding fees or payments charged to such rated entities.
- 3.1.1.5. BWR and its employees do not engage in providing rating advisory services and/or help the issuer(s) in structuring/syndicating the debt programme or loan facility(s) with or without fee.

### **3.1.2. Transparency and Disclosure to Mitigate Conflicts in the Rating Process**

- 3.1.2.1. Rating Committee members are appointed based on their professional expertise. They are required to disclose any personal interests in companies or entities where they hold directorship or any other capacity. In the event of a conflict of interest concerning a matter on the meeting agenda, the relevant Rating Committee member(s) shall refrain from participating in the committee's deliberations or decisions regarding the rating of those clients or companies.
- 3.1.2.2. The analytical team and the Rating Committee members must declare any potential conflicts of interest before commencing their assignment. Should any conflict of interest arise, they are obligated to disclose it, so that such assignments can be reassigned to others.
- 3.1.2.3. BWR adopts a team approach and subjects each rating to multiple iterations in the analytical process before it is presented to the Rating Committee, which comprises experienced professionals. This process ensures that rating opinions are not influenced by any individual biases or shortcomings.
- 3.1.2.4. BWR shares its rating criteria through its website and on the rating rationales. Additionally, BWR has established criteria for all the major business segments in the corporate, infrastructure, and financial sectors, as well as for structured finance, mutual funds, etc. These criteria are available on its website.
- 3.1.2.5. BWR makes its rating rationales for all assigned ratings publicly available. Furthermore, it regularly publishes default and rating transition data on its website every six months. This information serves to verify the consistency of its rating standards on a broader scale.

### **3.1.3. Transparency and Disclosure to Mitigate CRA and Promoter Conflicts**

BWR does not rate securities issued by its promoter, Canara Bank. Additionally, the Chairman, Director or employee of the promoter shall not hold positions in BWR nor participate in any rating meetings.

### **3.1.4. Transparency and Disclosures to Mitigate Employee-Related Conflicts**

3.1.4.1. Employees shall disclose if any of their dependent and/or close family members are employed /connected with a BWR client. Based on the information provided, if the management of BWR believes that allowing the staff to deal with the case does not compromise the interests of BWR, the employee may be permitted accordingly. Otherwise, the employee shall not deal with any clients of that client.

3.1.4.2. The access person and/or employees are responsible for making diligent efforts to promptly inform and disclose to BWR any situations or circumstances that could potentially or actually lead to a conflict of interest in fulfilling their duties and responsibilities.

3.1.4.3. Employees are required to adhere to the following procedures if they wish to accept a director position at any company:

3.1.4.3.1. Employees or their immediate family members must not accept a directorship in any company if it creates a conflict of interest with BWR.

3.1.4.3.2. Before assuming a directorial position within any company, employees, not part of the key managerial personnel must seek approval from the Chief Compliance Officer (CCO). The CCO is responsible for maintaining a record of these directorships and ensuring that the CEO is kept informed of such appointments.

3.1.4.3.3. In cases where there is a conflict of interest, the CEO and Key Managerial Personnel of BWR must notify and obtain approval from the BWR Board of Directors before accepting a directorship in another company.



### 3.2. Policy on Trading

BWR enforces stringent policies to prevent actual or perceived conflicts of interest when investing in securities. The company avoids investing in securities issued by firms rated by BWR and ensures that its investment decisions do not utilize any Unpublished Price Sensitive Information (UPSI) from its credit ratings business. Furthermore, BWR upholds stringent guidelines and ethical standards regarding personal trading by employees, access persons, either individually or jointly, or under their dependents' names or as part of a Hindu Undivided Family (HUF). These guidelines mandate transparency, disclosure of holdings, and limitations on trading specific securities to mitigate conflicts of interest and preserve the financial system's integrity. Please refer to BWR's Policy on Trading for details.

### 3.3. Enforcement of Firewalls

**3.3.1. Separate Legal Entity** BWR functions as an independent legal entity that exclusively handles the rating business and participates solely in activities authorized by SEBI for credit rating agencies.

**3.3.2. Distinct Separation between BWR and Affiliated Group Companies** BWR has a dedicated area for its business operations with logical, physical firewalls and access controls that segregate its business operations from all other group companies of BWR.

**3.3.3. Segregation of Information and Access Control through Robust Firewalls** BWR implements robust firewalls and a Confidentiality Policy to ensure that BWR and its affiliated subsidiaries do not have access to each other's non-public information. The Firewall Policy delineates clear guidelines for preventing the exchange of information between BWR and its non-rating entities, providing comprehensive direction to employees regarding information sharing within the group. For further details, please refer to the [BWR Firewall Policy](#).

### 3.4. Outsourcing of Activities

BWR has formulated a comprehensive outsourcing policy to uphold consistent standards of quality, confidentiality, and integrity, ensuring that outsourced activities align with in-house operations. This policy addresses outsourced activities and outlines expectations for third-party relationships. BWR has actively taken steps to safeguard the confidential information of intermediaries and customers,

ensuring protection against unauthorized disclosures. To avoid any potential conflict of interest, BWR has set up requisite systems to establish an "arm's length" distance between the company and third parties in terms of infrastructure, manpower, decision-making, record-keeping, etc. For further details, please refer to BWR's detailed [Policy on Outsourcing](#).

### **3.5. Code of Conduct**

BWR Code of Conduct incorporates the principles laid out in the SEBI Code of Conduct for CRAs, the IOSCO Code for CRAs and BWR's internal policies for employees. This Code of Conduct policy further covers all behaviours, practices, and processes to ensure that all BWR employees are aware of potential conflicts of interest and escalate to the Compliance Officer if they observe any breach or are unclear about any such situations that may lead to non-compliance with this policy. BWR's Code of Conduct is accessible to the public on its official website.