POLICY ON CONFLICT OF INTEREST

Infomerics Valuation and Rating Private Limited (herein after referred to as “Infomerics”) is an analytical company providing Ratings, Research, Risk and Policy Advisory services. Infomerics shall adopt the best practices relating to transparency, disclosures and good governance. In keeping with this tradition, Infomerics is pleased to present to all its stakeholders its approach on managing conflicts of interest.

Infomerics has established policies and procedures to effectively manage conflict of interests. The key lies in adequate disclosures and a strong governance architecture comprising codes of conduct and robust firewall mechanisms. This document outlines the nature of the conflicts that Infomerics faces and its treatment of them.

Nature of the conflict

a) *The generic conflict of interest inherent in the "issuer pays" rating business model*

In this business model there is an apprehension that a rating agency may assign higher ratings than warranted in order to increase its revenues from the issuer. However, the benefits of the ‘issuer pays’ model far outweigh any other business model such as investors or regulators paying for ratings as enumerated hereunder.

Ratings are a tool to enhance transparency and efficiency in the debt securities market. A model in which investors pay for the ratings would lead to a situation where ratings would enable some investors (subscribers) to price debt securities correctly. In contrast, the ‘issuer-pays’ model, where ratings are in the public domain and the information is available to the market as a whole, facilitates the functioning of an efficient market. Hence, the latter approach is preferable as it avoids asymmetry of information between various market participants.

In a ‘regulator pays’ business model, typically, the regulator will only specify minimum standards for rating agencies. In the current model, research quality standards are determined by market demands while investor needs provide the impetus for improving analytical practices. The continuous improvements in analytical standards that are being witnessed today may thus be impaired in a ‘regulator pays’ model, which may ultimately reduce the flow of information to the financial markets.

Given these limitations of the investor or the regulator paying for ratings, the ‘issuer pays’ model has, over time, been accepted globally, and in India, as the most efficient and sustainable business model.

b) <u>Conflict of interest induced by non-rating engagements with issuers</u>

Advisory or research engagements with rating clients could lead to more favourable ratings being assigned in order to increase revenues for the advisory or research businesses.

Infomerics believes that the success of the ratings business model is driven by the credibility enjoyed by the agency in the eyes of investors. Any attempt to assign higher than warranted ratings to issuers will result in a clear loss of credibility. This, in turn, will erode the rating agency's future business from issuers. Hence, this is a strong disincentive for rating agencies to let conflicts of interest undermine their rating decisions.

Non-ratings businesses (such as advisory or research activity) enhance the quality of the ratings activity by providing a separate revenue stream to cushion against any volatility in the ratings business income and thereby reducing the pressure on ratings activity. It enables the agency to enrich its knowledge and information base and thereby enhancing the quality of its credit rating opinion.

While conflicts of interest do exist, the onus is on the rating agency to manage these conflicts effectively and to reassure all its stakeholders of its ability to do so

Managing such conflicts

Managing conflicts lies in adequate disclosure, effective codes of conduct, and strong firewall mechanisms. The measures taken by Infomerics in each of these areas are outlined below:

a) Transparency and disclosure

Infomerics believes that transparency and adequate disclosure about its businesses, practices and rating criteria enable the market to assess a rating agency's integrity. Infomerics makes following disclosures to affirm that integrity of the ratings is not being compromised on account of business considerations:

i. **Non-ratings activities:** In its financial results, Infomerics discloses its non-ratings businesses and their revenues.

ii. **Measures to avoid conflict of interest:** Infomerics discloses the measures that it takes to avoid conflicts of interest. In case Infomerics and the issuer have any common directors , such directors and any director who is members of rating committee do not participate in the Rating Committee Meeting and rating process. A disclosure to this effect is also made with the announcement for the rating and the credit rating report.

iii. **"Issuer Pays" model:** Infomerics publicly discloses the fact that the issuer pays for the ratings.

iv. **Multi-layer process**: Each Infomerics rating has to pass through multiple iterations in the analytical process and is then brought up before a rating committee comprising eminent and experienced professionals. This ensures that individual biases or shortcomings, if any, do not colour INFOMERICS's rating opinions.

v. **Rating criteria:** Infomerics's rating criteria are disseminated through its website, publications and investor discussions. Infomerics has published criteria for all the major business segments in the corporate, infrastructure and financial sectors.

vi. **Rationale for each rating:** Rating Rationales for all the ratings assigned by Infomerics are publicly available. Infomerics's analysts are also accessible for discussions on the rationale of any rating.

vii. **Default and transition data:** Infomerics publishes its default and rating transition data.

b) Code of conduct

i. **Rating fees are not in any way linked to issue success or rating level:** Infomerics's rating fees are decided upfront before the rating exercise commences. The fee payable to Infomerics is in no way linked to the rating that is assigned to the instrument nor is there any linkage with the potential success or failure of the proposed issue.

ii. **Separate business development, criteria and analytical teams:** Infomerics has separate teams for business development, for developing criteria, and for executing assignments. This ensures that business pressures do not in any manner influence the teams involved in developing rating criteria and in assigning the rating.

iii. **Analyst compensation is not linked to rating fees:** There is no linkage between the analyst's compensation and the rating fees paid by issuers. This ensures that there is no potential conflict of interest faced by the team undertaking the rating assignment.

iv. **Team approach to avoid individual bias:** Infomerics ensures that all rating assignments are conducted in teams. This ensures that there is always a second opinion and that individual biases, if any, do not influence the rating committee's decision.

v. **Ethical business development:** The business development function within Infomerics aims at developing highest ethical standards. Rating mandates are not solicited by promising specific ratings to issuers.

vi. **To avoid conflict of interest :** In case Infomerics Rating Committee Members have conflict of interest with the issuer, such members do not participate in the Rating Committee Meeting and rating process. A disclosure to this effect is also made with the announcement for the rating and the credit rating report.

c) Firewalls

i. **Physical separation of non-ratings and ratings activities**: The ratings and non-ratings businesses have firewalled office premises and separate business development teams and analytical teams. In fact, the separation of the ratings businesses from other businesses exists right through the business hierarchy with separate division heads for the ratings and non-ratings businesses.

ii. **Firewall policy to regulate information transfer**: Infomerics has put in place a rigorous firewall policy to ensure that the ratings and non-ratings businesses do not have access to each other's non-public information.

iii. No non-ratings employee is a member of Infomerics's rating committee.

iv. No non-ratings employee is allowed access to rating committees

Infomerics remains committed to taking all the necessary steps to insulate its ratings activity from any emerging situation that could create a potential conflict of interest. This document is available without charge to the public on Infomerics's public website, www.infomerics.com.

However, by making this document available to the public, Infomerics does not assume any responsibility or liability to any third party arising out of or relating to the contents of this document. This document shall not form a part of any contract with any third party and no third party shall have any right (contractual or otherwise) to enforce any of this document's provisions, either directly or indirectly. Infomerics in its sole discretion may revise the contents of this document to reflect changes in market, legal, economic and regulatory circumstances and changes to Infomerics's controls, policies and procedures.