

**ACRA**

## **2018 Transparency Report**

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*"We are committed to providing the Russian rating services market with high-quality products by building up a highly professional, technologically advanced and transparent business, consistently vested with confidence by the investment community."*

The Analytical Credit Rating Agency team

The Transparency Report contains information on operations of Analytical Credit Rating Agency over the period from January 1, 2018 to December 31, 2018.

The Transparency Report has been prepared in accordance with requirements of Part 4, Article 13 of Federal Law No 222-FZ. This document is subject to publication in the Compliance section of ACRA's website.

## Contents

About ACRA.....	4
1.1. Company Structure .....	4
2. Internal Control.....	4
2.1. Code of Ethics and Professional Conduct, and documentation supporting ACRA's activities .....	5
2.2. Board of Directors.....	5
2.3. Compliance and Internal Control Service .....	5
2.4. Rating Committee.....	7
2.5. Methodology Group and Methodology Committee.....	7
3. Results of annual inspection of ACRA carried out by the internal control body .....	7
4. Rating analysts allocation statistics.....	8
5. Rating analyst rotation.....	9
5.1. Requirements to rotate lead rating analysts .....	9
5.2. Data on rotation of lead rating analysts in 2018 .....	9
6. Documentation storage policy .....	9
7. Information on revenues.....	10
8. Mandatory training of rating analysts.....	10

# 1. About ACRA

## 1.1. Company Structure

Structurally, ACRA consists of the following business units:

- Analytical Unit;
- Methodology Group;
- Compliance and Internal Control Service;
- Operational Unit;
- Business Development Directorate;
- Analytical Services Group.

The Analytical Unit includes research groups focusing on specific types of rated objects:

- Corporate Ratings Group;
- Financial Institutions Ratings Group;
- Sovereign and Regional Ratings Group;
- Structured Finance Ratings Group.

The Analytical Unit also includes the Research and Forecasting Group, which, among other things, is responsible for the preparation of macroeconomic and industry research materials.

## 2. Internal Control

Internal control at ACRA is carried out by the governing bodies, Compliance and Internal Control Service, rating committees, methodology committees, and ACRA employees within the scope of their competences and in line with ACRA's internal documents.

The governing bodies and all ACRA employees are subject to Federal Law No 222-FZ<sup>1</sup>, other statutory acts of the Russian Federation, the Charter of ACRA, and ACRA's internal documents.

ACRA's internal control pursues the following objectives:

- Ensuring credibility of assigned credit ratings and the independence of credit rating activities from any political and/or economic influence;
- Identifying and preventing conflicts of interest, as well as managing them;
- Ensuring the completeness, reliability and timeliness of compiling and providing reports to internal and external users;
- Risk management in the course of ACRA's activities, including regulatory risk;
- Ensuring the effectiveness of ACRA's activities.

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<sup>1</sup> Federal Law of 13 July 2015 No 222-FZ On the Activities of Credit Rating Agencies in the Russian Federation, On the Amendment to Article 76.1 of the Federal Law 'On the Central Bank of the Russian Federation (Bank of Russia)' and the invalidation of certain provisions of legal acts of the Russian Federation

## **2.1. Code of Ethics and Professional Conduct, and documentation supporting ACRA's activities**

ACRA's Board of Directors approved the Code of Ethics and Professional Conduct, which outlines the fundamental principles the Agency's employees adhere to while performing rating activities and providing additional services.

The requirements of the Code of Ethics and Professional Conduct are taken into account in the course of preparing internal policies, regulations and procedures at ACRA.

All ACRA employees are required to familiarize themselves at the moment of hiring and on an annual basis with the Code of Ethics and Professional Conduct (<https://www.acra-ratings.com/compliance/97>), and applicable policies and regulations.

## **2.2. Board of Directors**

In terms of internal control, the Board of Directors has been vested with the following powers:

- 1) Evaluation of effectiveness of systems controlling credibility of assigned credit ratings;
- 2) Evaluation of effectiveness of measures and procedures established to prevent, identify, manage, and disclose conflicts of interests;
- 3) Control over compliance with Federal Law No 222-FZ and the regulations of the Bank of Russia adopted in accordance with this Federal Law, and the documents of the credit rating agency, including the effectiveness of the methodology review function.

## **2.3. Compliance and Internal Control Service**

The Compliance and Internal Control Service is an ACRA structural unit organizationally subordinate to the CEO and functionally subordinate and accountable for its activities to ACRA's Board of Directors. The Service is headed by the Director for Compliance.

The Service is an internal control body in accordance with the requirements of Federal Law No. 222-FZ.

ACRA's CEO provides the conditions for unimpeded and efficient performance of the Compliance and Internal Control Service. The Service operates based on several principles, which include:

### **1. Independence and impartiality**

- ACRA makes sure that the Compliance and Internal Control Service is able to perform its functions without bias and without interference by ACRA employees who are not Service officers, governance bodies, as well as shareholders and persons who exercise control over or have a significant influence on ACRA;

- The Compliance and Internal Control Service officers may not combine their activities with work in other ACRA units that may affect their independence, nor can such employees be employed in the governance bodies. The Service officers shall not be allowed any part-time employment in other organizations;
- The Director for Compliance has the right to freely interact with the Board of Directors (or independent members of the Board, if necessary) and to report on his/her own initiative to the Board of Directors (or independent members of the Board, if necessary) about issues and problems arising in the course of Service functioning, coupled with proposals for their solution;
- The Compliance and Internal Control Service regularly submits reports to the Board of Directors on the results of inspections, as well as on the identified risks and violations requiring appropriate measures;
- The Compliance and Internal Control Service controls the effectiveness of measures taken by the business units and governance bodies of ACRA as a result of inspections and aimed at reducing identified risks;
- The Compliance and Internal Control Service does not perform activities subject to inspections, except an independent inspection by an audit organization or an inspection by the Board of Directors;
- ACRA ensures that the Compliance and Internal Control Service performs its duties without interference by the governance bodies, business units and employees of ACRA who are not Service officers, as well by shareholders and persons exercising control over or having significant influence on ACRA;
- The remuneration of the Compliance and Internal Control Service officers shall not depend on ACRA's financial results;
- The Compliance and Internal Control Service develops internal documents, plans, methods and processes for carrying out verification activities independently and shall not coordinate them with inspected units.

## **2. Objectivity and ethical standards**

- The Compliance and Internal Control Service officers carry out their activities based on the Code of Ethics and Professional Conduct of ACRA and should avoid any influence that a potential conflict of interest may have on objectivity of their professional judgment in the course of internal control implementation.

## **3. Continuity of activities**

- The Compliance and Internal Control Service operates on a permanent basis and is part of ACRA's organizational structure;
- The Compliance and Internal Control Service has permanent personnel only and includes only full-time employees;
- The number of officers working for the Compliance and Internal Control Service and the latter's technological support and structure must be in line with the scale of ACRA's business.

#### **4. Professional competence**

- Upon the appointment and during the entire tenure the Director for Compliance must comply with business reputation requirements established by Part 1 of Article 7 of Federal Law No. 222-FZ;
- The professional competence of the Compliance and Internal Control Service personnel is maintained at a proper level through periodic training and professional development.

### **2.4. Rating Committee**

The Rating Committee is a group of rating analysts, including the Chairman of the Rating Committee, who decides on rating actions.

A member of the rating Committee may be an employee ACRA's analytical unit who meets the requirements for knowledge and professional experience, has passed the knowledge and competencies assessment in accordance with the requirements of ACRA's internal documents.

The formation of the Rating Committee is made taking into account the requirements for the absence of actual or potential conflicts of interest among the members of the Rating Committee regarding rating object under consideration at the meeting of the Rating Committee. The Chairman of the Rating Committee and the Compliance and Internal Control Service are responsible for monitoring the absence of actual or potential conflicts of interest among the members of the Rating Committee.

### **2.5. Methodology Group and Methodology Committee**

The Methodology Group is an ACRA permanent structural unit responsible for development, testing, validating and updating methodologies, as well as for supervision over the application of methodologies in the course of rating activities, and for assessing the accuracy of such implementation. The Methodology Group is organizationally subordinate to the CEO and functionally subordinate and accountable for its activities to the Board of Directors.

Approvals and revisions of methodologies are subject to decisions taken by the Methodology Committee, a permanent collegial body formed by members of the Methodology Group.

Validation and testing of methodologies are performed by a Methodology Group member, who is not part of the Methodology Committee and does not participate in the development of methodologies.

The Methodology Group reports on its activities to the Board of Directors.

## **3. Results of annual inspection of ACRA carried out by the internal control body**

The rating activities performed by ACRA are in line with Russian legislation and ACRA's own internal documents.

The rating process is subject to control procedures aimed at identifying conflicts of interest and independence of rating activities from political or economic influence, as required by Federal Law No. 222-FZ, the Bank of Russia regulations, and ACRA's internal documents. The control procedures currently in place are assessed as adequate. No conflicts of interest have been discovered in the course of the rating process.

The inspection revealed certain deficiencies in terms of the composition and structure of control procedures aimed at ensuring proper implementation of the Agency's operational and analytical processes. A relevant plan aimed at eliminating those deficiencies has been approved by the Board of Directors and is being implemented.

## 4. Rating analysts allocation statistics

**Table 1. Statistical information on the distribution of rating analysts by the classes of objects of credit rating, rating actions on assignment, and reviews of credit ratings performed in 2018**

No	Class of objects of credit ratings	Number of rating analysts involved in the rating assignment	Number of rating analysts involved in the rating reviews
1	Banks	18	18
2	Non-financial companies (including holding companies)	17	19
3	Leasing companies	8	10
4	Insurance companies	11	10
5	Other non-bank financial companies	5	11
6	Debt instruments <sup>2</sup>	22	22
7	Structured finance instruments <sup>3</sup>	10	0
8	Sovereign ratings	10	19

All ACRA rating analysts may participate in credit rating assignments and reviews.

<sup>2</sup>Debt instruments are issues of municipal bonds of the Subjects of the Russian Federation and municipal entities, as well as corporate bonds of non-financial companies, banks, non-bank financial organizations and other issuers, placed under public subscription, with the exception of structured finance instruments.

<sup>3</sup>Structured finance instruments are debt instruments that typically have the following attributes:

- Issuer meeting the requirements of limited risk of bankruptcy;
- Granular portfolio as the main source of emission collateral;
- Tranche (the order of execution of obligations on bonds of different issues and/or monetary obligations under contracts that are secured by the same collateral portfolio);
- No full credit substitution (guarantees, sureties from third parties).



## **5. Rating analyst rotation**

### **5.1. Requirements to rotate lead rating analysts**

ACRA ensures a procedure of rotation (replacement of lead rating analysts who participate in preparation of a credit rating or credit rating outlook with regard to one rated entity).

Lead rating analysts are not allowed to participate in rating actions pertaining to a given rated entity for more than four consecutive years and for more than five consecutive years in relation to sovereign credit ratings.

Lead rating analysts who have terminated their participation in rating actions related to one rated entity due to rotation are not allowed to participate in rating actions related to this rated entity for two years following the rotation.

### **5.2. Data on rotation of lead rating analysts in 2018**

There was no mandatory rotation of lead rating analysts in 2018, as mandatory rotation time has not yet come.

## **6. Documentation storage policy**

ACRA stores internal data and documents used in the course of credit rating assignment as long as required by the Bank of Russia, but not less than 5 years, ensuring integrity, accuracy, and reliability of these documents in order to provide for verifiability of rating actions accuracy. All internal data and documents are kept on file to ensure objectivity of ACRA's rating activities, as well as to back up the processes of internal audit, compliance control, and quality control.

ACRA ensures storage of information within the timeframes defined by the Bank of Russia's requirements, including the following information and data:

- Information on composition of rating committees, sets of documents and data related to the resolution on implementation of a rating action, as well as rating committees' meeting minutes;
- All initial information upon which lay the basis for rating analysis, including documents and information provided by rated entities, emails, rating meeting minutes, and other information;
- All versions of methodologies, models, validation reports;
- Data related to interaction with clients in the framework of concluding agreements, as well as agreements on rating actions, and agreements on additional services;
- Communications with regulatory bodies;
- Documentation of governing bodies;
- ACRA's internal documents.

Information and data related to analytical activities, development, and methodology validation are stored on dedicated IT resources, separate from other IT resources containing information on contracts and remuneration for assigned ratings.

Access to ACRA's IT resources is provided in compliance with "Chinese wall" and "need-to-know" principles.<sup>4</sup>

ACRA has appointed an information security manager responsible for the implementation of information security measures, compliance with ACRA's information confidentiality regime, the requirements of the legislation of the Russian Federation, as well as the requirements of the Bank of Russia for the safety and protection of information obtained in the course of ACRA activities.

## 7. Information on revenues

**Table 2. Information on revenues for the period from January 1 to December 31, 2018**

ACRA revenues from rating activities, RUB th (excluding VAT)	469,901
ACRA revenues from additional <sup>5</sup> services, RUB th (excluding VAT)	48,119
ACRA 2018 revenues (total), RUB th (excluding VAT)	518,020

## 8. Mandatory training of rating analysts

To ensure the necessary competence level, rating analysts completed the required number of mandatory training hours in 2018, as outlined in ACRA's internal documents.

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<sup>4</sup> These principles can be found in the Policy on handling Confidential Information: <https://www.acra-ratings.com/about/compliance/72>.

<sup>5</sup> The List of Additional Services is available at <https://www.acra-ratings.com/compliance/122>.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)  
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Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – [www.acra-ratings.com/criteria](http://www.acra-ratings.com/criteria).

No credit rating and/or credit rating outlook is regulated by the Central Bank of the Russian Federation, unless distributed so that such credit rating and/or credit rating outlook is in the public domain.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – [www.acra-ratings.com](http://www.acra-ratings.com). Information is provided on an "as is" basis.

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ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.