

The background of the slide is a low-angle photograph of a city skyline at sunset or sunrise. The sky is a warm, golden-orange color. Several tall buildings are visible, with the most prominent one in the foreground having a distinctive facade of dark, rectangular panels arranged in a grid pattern, some of which are white, creating a checkered effect. The buildings in the background are more traditional skyscrapers with many windows.

Risks and Controls Polices 风险和控制政策

The regulated activities which FAR will undertake consist of production of corporate and sovereign ratings, as well as ratings for structured products. It is of course imperative that FAR maintain the highest degree of integrity, credibility, and excellence in all aspects of its business. As such, the major risk events facing FAR are operational in nature, which, should they crystallize, may potentially trigger reputation risk, compliance risk, legal risk, or financial risk. As an example, if FAR were to inappropriately release confidential information to the public due to an employee’s lack of adherence to procedures (an operation risk), FAR would run the risk of being sued (legal risk), and if the news that this happened were publicized, its reputation would be damaged (reputation risk). If in doing so, it had run afowl of any statutory requirements, it could run the risk of being sanctioned by the SEC (compliance and possibly reputational risk).

For the sake of clarity, we wish to state that FAR does not face material market, credit, or liquidity risks that are unique to its role as a rating agency.

The operational risks to which FAR is most exposed and the ways in which FAR mitigates such risk through process design, policy, procedure, and control mechanisms are already mentioned in detail in other areas of our application. However, for the sake of clarity, we will summarize the major risks and their mitigations below:

1. Operational risks which have a direct impact on quality of rating

a. Model and methodology risk	FAR has devoted a great deal of research and testing into its models and methodologies. FAR will institute formal reviews on at least an annual basis of its methodologies and models including those in which material changes have been implemented.
b. Improper input of information into the models	Rating analysts are well trained to understand the rationale for which types of data need to be input as well as the procedures of data input. A maker – checker system is in place to ensure that all data is verified by at least one other analyst.
c. Undertaking rating projects for which FAR models and methodology are not adequate	In cases where FAR is tasked with providing a credit rating for a financial product which is materially different from structures currently rated, its Product Review Function will vet FAR’s ability to feasibly provide a high quality credit rating for that product.
d. Failure to review methodology and / or withdraw ratings when there have been material underlying changes in the dynamics or context of the rating target	FAR will allocate adequate personnel and financial resources to monitoring and updating its ratings on a regular and timely basis. Once a rating is published, and while it is in effect, FAR will review the rating target’s creditworthiness at least annually, and at any time it becomes aware of developments which might reasonably be expected to bear a material influence

	<p>on the creditworthiness of the rating target and thus require revision or termination. In that case FAR will update or terminate the rating based on the results of the review.</p> <p>When it is determined that the risk characteristics of the assets underlying a structured finance product have changed materially, FAR will assess whether its presently employed methodologies and models remain adequate. If the models and methodologies no longer adequately meet the changed circumstances, for instance due to complexity of structure or lack of robust data regarding the underlying assets, FAR will either remedy the situation by adjusting the models and methodologies, or refrain from issuing a credit rating altogether.</p>
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2. Occurrence of improper conflicts of interest (see separate paper on conflicts of interest and how FAR will mitigate them)

Generally speaking, FAR will establish, maintain and enforce policies and controls to identify and eliminate, or manage and disclose, as appropriate, actual or potential conflicts of interest that may influence the determination of Credit Ratings, or the approval of new or revised Credit Rating, or the judgment and analyses of the employees who are involved in the preparation of ratings. FAR will monitor external and internal complaints regarding possible infractions of its measures regarding conflict of interest. FAR's disclosures of actual or potential conflicts of interest of which it is aware will be timely, complete, clear, concise, specific and prominently displayed. FAR has established policies to address and manage the following conflicts of interest:

- a. A conflict of interest between the desire of FAR to obtain an issuer's business (or a related party's business) may interfere with its duty to provide objective ratings. To ensure that there are no conflicts of interest and properly segregate responsibilities, the function carrying out the review will be well qualified and strictly independent of the business lines responsible for conducting the ratings.
 - (1) FAR employees who are directly involved in the production of ratings are not allowed to make proposals or provide advice regarding the design of structured finance products which FAR rates.
 - (2) The determination of a credit rating will be influenced only by factors relevant to the credit assessment.
 - (3) FAR will neither forbear nor refrain from preparing or revising any rating based on the potential effect (economic, political, or otherwise) on it, a rated entity, an investor, or other market participant.
 - (4) The credit rating FAR assigns to a rating target will not be affected by the existence of, or potential for, a business relationship between FAR and the rated entity (or its affiliates), or any other party, or by the non-existence of such a relationship.
 - (5) FAR will not enter into any contingent fee arrangement for providing credit rating services.
 - (6) FAR will publicly disclose the general nature of its compensation arrangements with rated entities.

- (7) In instances where 5% or more of FAR's total annual revenue is received from a single issuer, originator, arranger, client or subscriber and/or any affiliate of such issuer, originator, arranger, client or subscriber, FAR will disclose the party or parties from which such revenue is received.
- b. A conflict of interest between FAR's desire to promote and engage in ancillary lines of business other than rating and its duty to provide objective credit rating services.
- (1) There will be a strict Chinese Wall barring inappropriate information access between FAT (FrancXav Analytics Team, which conducts the ratings), and FMT (FrancXav Methodology Team, which develops models and may provide advisory and structured product services). The purpose of the division is to ensure that there are no conflicts of interest between ancillary businesses undertaken by FMT which might compromise FAR's ability to provide objective credit rating services.
 - (2) In regards to advice on structured products, FAT credit rating personnel must not make proposals or recommendations, either formally or informally, regarding the design of financial instruments on which MIS is expected to issue a Credit Rating. FMT, however, it permitted to do so as long as information sharing between it and FAT is appropriately restricted as stipulated above.
 - (3) FAR will not carry on any business which can reasonably be considered to have the potential to give rise to any conflict of interest in relation to its business of providing credit rating services. Specifically, FAR is prohibited from issuing or maintaining a credit rating and, if applicable, the related rating outlook or rating review where any employee made recommendations to the rated entity or its agent about the corporate or legal structure, assets, liabilities or activities of the rated entity, on how to achieve a better rating.
 - (4) FAR will have in place procedures and mechanisms designed to minimize the likelihood of conflicts of interest arising, and to identify any conflict of interest should it arise, in relation to the conduct by it of any ancillary business.
 - (5) FAR will identify and define any ancillary business which FAR considers not to have the potential to give rise to any conflicts of interest with FAR's credit rating business as well as provide explanation as to why it believes there is no potential conflicts of interest.
 - (6) FAR will make full public disclosure of its ancillary services on its website and update such disclosure in a timely manner.
 - (7) FAR will not provide consultancy or advisory services to a an entity (or related party thereof) which it rates regarding its corporate or legal structure, assets, liabilities, or activities of that related entity (or related party).
 - (8) While FAR neither provides consulting services nor receives compensation from rated entities unrelated to its ratings services, if it were to do so, it would disclose the proportion that all such compensation constitutes against the total fees which FAR (and / or its affiliate(s)) receives from the rated entity for the provision of ratings services.
- c. A conflict of interest between the interests of a rating target which has investments in FAR (or its related company) and FAR's ability to produce objective credit ratings.
- Full disclosure of the quantum of investment which a rating target has in FAR (or its related company) must be made if such quantum is equal to or in excess of 5% or more of its outstanding shares.
- d. A conflict of interest between FAR's desire to obtain positive feedback from government oversight and its duty to provide objective ratings regarding a government entity exerting that oversight.

In instances where rated entities (e.g. governments) have, or are simultaneously pursuing, oversight functions related to FAR, the employees of FAR who are involved in the oversight issues will not be allowed to participate in the credit ratings of the entity and / or revisions to such ratings.

- e. A conflict of interest between an individual FAR employee's potential to personally benefit from its interests in a rating target (or related entity) and the integrity the ratings which FAR assigns.
 - (1) FAR will ensure that it and its employees do not engage in any securities or derivatives trading which gives rise (or might be expected to give rise) to conflicts of interest with FAR's rating activities. Specifically, employees involved in the rating process (or his/her spouse, partner, minor children or any account controlled by the employee in which the employee has a beneficial interest) are not allowed to buy or sell, or engage in any transaction involving, any securities or derivative based on securities issued, guaranteed, or otherwise supported by any entity within such employee's area of primary analytical responsibility, other than holdings in collective investment schemes.
 - (2) Employees will not prepare, participate in or otherwise influence the determination of a rating of any particular rating target if the employee:
 - (a) Owns (or has a family member who owns) securities or derivatives of the rated entity, other than holdings in collective investment schemes;
 - (b) Owns (or has a family member who 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 collective investment schemes;
 - (c) 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;
 - (d) Has an immediate relation (i.e. a spouse, partner, parent, child, or sibling) who currently works for the rated entity; or
 - (e) Has, or has had, any other relationship with the rated entity or any related party thereof, that may cause, or may be perceived as causing, a conflict of interest.
- f. A conflict of interest between incentives to employees to promote the business of FAR and produce objective credit ratings.
 - (1) Employees of FAR who are directly involved in the rating process may not initiate or participate in discussions regarding fees or payments with any entity they rate.
 - (2) Reporting lines for employees and their compensation arrangements will be structured to eliminate or effectively manage actual or potential conflicts of interest.
 - (3) Employees will not be compensated or evaluated on the basis of the amount of revenue that FAR derives from rated entities that the employee rates or is involved in rating, or with which the employee regularly interacts.
 - (4) FAR will conduct formal and periodic reviews of compensation policies and practices for its employees who participate in, or who might otherwise have an effect on, the rating process to ensure that these policies and practices do not compromise the objectivity of its rating process.
- g. Other conflicts of interest between the interests of an individual employee and FAR's ability to produce objective credit ratings
 - (1) FAR employees are prohibited from soliciting money, gifts or favors from anyone with whom FAR does business and are also prohibited from accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.
 - (2) Any FAR employee who becomes involved in any personal relationship that creates the potential for any real or potential conflict of interest (including, for example, any