

Code of Conduct



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INTERPRETATIONS

Term	Expanded Definition
Credit rating agency or CRA	An entity that is in the business of issuing credit ratings.
Analyst	A Credit Rating Agency employee who performs analytical functions that are necessary for the issuing or monitoring of a credit rating or participates in determining credit ratings, including an employee involved in a credit rating committee.
Credit Rating or Rating	An assessment regarding the creditworthiness of an entity or obligation, expressed using an established and defined ranking system.
Credit rating action	To determine an initial credit rating, an upgrade of an existing credit rating, a downgrade of an existing credit rating (including to a default category), an affirmation of an existing credit rating, or a withdrawal of a credit rating.
Credit rating methodology	the procedure by which a CRA determines credit ratings, including the information that must be considered or analyzed to determine a credit rating and the analytical framework used to determine the credit rating, including, as applicable, the models, financial metrics, assumptions, criteria, or other quantitative or qualitative factors to be used to determine the credit rating.
Credit rating process	All the steps taken with respect to a credit rating action including, but not limited to, the CRA's selection and assignment of analysts to work on the matter, application of the credit rating methodology, decision-making activities (e.g., the operation of a rating committee), interaction with the rated entity, obligor, originator, underwriter, or arranger, and as applicable, dissemination of the credit rating publicly or to subscribers.

Employee	Any individual who works for the CRA on a full-time, part-time, or temporary basis, including any individual working as a contractor, provided that such contractor is involved in the credit rating process.
Entity	A government; political subdivision, agency, or instrumentality of a government; or a company, corporation, partnership, trust, estate, or association.
Issuer	An entity by which a security has been/being issued.
Trading instrument	A security, money market instrument, derivative, or other similar product.
Obligation	A trading instrument, credit commitment, loan, or other similar product or transaction that has inherent credit risk.
Obligor	The entity that is legally or contractually obliged to make payments on a rated obligation.

INTRODUCTION TO THE COMPANY

Lanka Rating Agency is a credit rating agency as defined under the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021. It is accordingly a registered market intermediary in terms of and under the SEC Act. As such Lanka Rating Agency is required to comply with and adhere to the provisions of the SEC Act and rules, regulations, determinations, and directions made thereunder. General Rules for all market intermediaries promulgated by the Securities and Exchange Commission of Sri Lanka (“SEC”) contain express rules applicable to credit rating agencies.

LRA also recognized by the Central Bank of Sri Lanka as an acceptable External Credit Assessment Institution for the purpose of Banking Act Direction No.01 of 2016 on Capital Requirements Under Basel III for Licensed Commercial Banks and Licensed Specialised Banks and other related regulatory requirements pertaining to licensed commercial banks and licensed specialized banks.

LRA is a domestic credit rating agency providing credit rating opinions on banks, financial institutions, corporate entities, government and semi-government entities and on debt instruments.

INTRODUCTION TO THE CODE

To enhance the market understanding of and confidence in its credit rating, LRA has adopted this code of conduct. The code of conduct sets out the principles that guide LRA in its efforts to protect the quality, integrity, objectivity and transparency of the credit rating process.

The code is derived from IOSCO Code of Conduct for Credit Rating Agencies – March 2015

1. QUALITY AND INTEGRITY OF THE CREDIT RATING PROCESS

A. Quality of the Credit Rating Process

- 1.1. Follow the defined rating criteria, methodologies and procedures carefully, uniformly and in a consistent manner.
- 1.2. Ensure that rating decisions are consistent with the methodologies, procedure and process used in the rating.
- 1.3. LRA shall adopt reasonable measures designed to ensure that it has the appropriate knowledge and expertise, and that the information it uses in determining credit ratings is of sufficient quality and obtained from reliable sources to support a high-quality credit rating.
- 1.4. LRA shall avoid issuing credit ratings for entities or obligations for which it does not have appropriate information, knowledge, and expertise. For example, where the complexity of a security or the structure of a type of security, or the lack of robust data about the assets underlying the security raise serious questions as to whether the LRA can determine a high-quality credit rating for the security, the LRA should refrain from issuing a credit rating.
- 1.5. In assessing creditworthiness, analysts involved in the credit rating action should use the credit rating methodology established by the LRA for the type of entity or obligation that is subject to the credit rating action. The credit rating methodology should be applied in a manner that is consistent across all entities or obligations for which that methodology is used.
- 1.6. LRA shall define the meaning of each category in its rating scales and apply those categories consistently across all classes of rated entities and obligations to which a given rating scale applies.
- 1.7. Credit ratings shall be assigned by the LRA as an entity (not by an analyst or other employee of the LRA).
- 1.8. LRA shall assign analysts who, individually or collectively (particularly where credit rating committees are used), have appropriate knowledge and experience for assessing the creditworthiness of the type of entity or obligation being rated.
- 1.9. LRA shall maintain internal records that are accurate and sufficiently detailed and comprehensive to reconstruct the credit rating process for a given credit rating action. The records should be retained for six years to promote the integrity of the LRA's credit

rating process, including to permit internal audit, compliance, and quality control functions to review past credit rating actions in order to carry out the responsibilities of those functions. LRA ensures that its employees comply with the LRA's internal record maintenance, retention, and disposition requirements and with applicable laws and regulations governing the maintenance, retention, and disposition of LRA records.

- 1.10. LRA shall ensure that it has and devotes sufficient resources to carry out and maintain high quality credit ratings. When deciding whether to issue a credit rating for an entity or obligation, LRA shall assess whether it is able to devote a sufficient number of analysts with the skill sets to determine high quality credit ratings, and whether the analysts will have access to sufficient information in order to determine a high-quality credit rating.
- 1.11. LRA shall require the Criteria Oversight Committee, comprising of one or more senior managers, at least once every twelve months, review all aspects of LRA's credit rating methodologies (including models and key assumptions) and significant changes to the credit rating methodologies.
- 1.12. LRA Criteria Oversight Committee is responsible for conducting a rigorous, formal, and periodic review, on a regular basis pursuant to an established timeframe, of all aspects of the LRA's credit rating methodologies (including models and key assumptions) and significant changes to the credit rating methodologies.
- 1.13. LRA, in selecting the analyst or analysts who will participate in determining a credit rating, should seek to promote continuity but also to avoid bias in the credit rating process. For example, in seeking to balance the objectives of continuity and bias avoidance, LRA could assign a team of analysts to participate in determining the credit rating – some for whom the rated entity or obligation is within their area of primary analytical responsibility and some of whom have other areas of primary analytical responsibility.
- 1.14. LRA should ensure that sufficient employees and financial resources are allocated to monitoring and updating all its credit ratings. LRA should monitor the credit rating on an ongoing basis by:
 - a) reviewing the creditworthiness of the rated entity or obligation regularly.
 - b) initiating a review of the status of the credit rating upon becoming aware of any information that might reasonably be expected to result in a credit rating action (including withdrawal of a credit rating), consistent with the applicable credit rating methodology;

- c) reviewing the impact of and applying a change in the credit rating methodologies, models or key rating assumptions on the relevant credit ratings within a reasonable period of time;
 - d) updating on a timely basis the credit rating, as appropriate, based on the results of such review; and
 - e) incorporating all cumulative experience obtained.
- 1.15. LRA clearly set forth guidelines for disseminating credit ratings that are the result or subject of credit rating actions and the related reports, and for when a credit rating will be withdrawn.

B. Integrity of the Credit Rating Process

- 1.16. LRA and its employees should deal fairly and honestly with rated entities, issuers and users of credit ratings.
- 1.17. LRA's employees should be held to the highest standards of integrity and ethical behavior, and the LRA shall have policies and procedures in place that are designed to ensure that individuals with demonstrably compromised integrity are not employed.
- 1.18. Prior to the commencement of a rating or during such process the LRA shall not promise, assure or guarantee to a Client that a particular rating will be assigned.
- 1.19. LRA and its employees should not make promises or threats about potential credit rating actions to influence rated entities, issuers or users of the LRA's credit ratings (e.g., subscribers) to pay for credit ratings or other services.
- 1.20. LRA and its employees should not make proposals or recommendations regarding the activities of rated entities or issuers that could impact a credit rating of the rated entity or issuers including but not limited to proposals or recommendations about corporate or legal structure, assets and liabilities, business operations, investment plans, lines of financing, business combinations.
- 1.21. Ensure that the LRA and its employees comply with the LRA's code of conduct and applicable laws and regulations.
- a) LRA should establish a compliance function responsible for monitoring and reviewing the compliance of the LRA and its employees with the provisions of the LRA's code of conduct and with applicable laws and regulations.
 - b) The compliance function also should be responsible for reviewing the adequacy of the LRA's policies, procedures, and controls designed to ensure

compliance with the LRA's code of conduct and applicable laws and regulations.

- c) The LRA should assign a senior level employee with the requisite skill set to serve as the LRA's compliance officer in charge of the compliance function. The compliance officer's reporting lines and compensation should be independent of the LRA's credit rating operations.

1.22. Upon becoming aware that another employee or an affiliate of the LRA is or has engaged in conduct that is illegal, unethical, or contrary to the LRA's code of conduct, the LRA employee should report such information immediately to the compliance officer or another officer of LRA as appropriate, so proper action may be taken. The LRA's employees are not necessarily expected to be experts in the law. Nonetheless, LRA employees are expected to report activities that a reasonable person would question. Upon receiving such a report from an employee, the LRA is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the policies, procedures, and controls established, maintained, documented, and enforced by the LRA. LRA should prohibit retaliation by the LRA or an employee against any employees who, in good faith, make such reports.

2. LRA INDEPENDENCE AND AVOIDANCE OF CONFLICTS OF INTEREST

A. General

- 2.1. LRA should not delay or refrain from taking a credit rating action based on the potential effect (economic, political, or otherwise) of the action on the LRA, a rated entity or issuer.
- 2.2. LRA and its employees should use care and professional judgment to maintain both the substance and appearance of the LRA's and its employees' independence and objectivity.
- 2.3. LRA's determination of a credit rating should be influenced only by factors relevant to assessing the creditworthiness of the rated entity or obligation.
- 2.4. The credit rating the LRA assigns to an entity or obligation should not be affected by whether there is an existing or potential business relationship between the LRA (or its affiliates) and the rated entity, issuer or any other party.
- 2.5. LRA should operationally, legally, and, if practicable, physically separate its credit rating business and its analysts from any other businesses of the LRA that may present a conflict of interest. For other businesses that do not necessarily present a conflict of interest, the LRA should establish, maintain, document, and enforce policies, procedures, and controls designed to minimize the likelihood that conflicts of interest will arise. LRA should disclose why it believes those other businesses do not present a conflict of interest with its credit rating business.

B. LRA Policies, Procedures, Controls and Disclosures

- 2.6. LRA identify and eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the credit rating methodologies, credit rating actions, or analyses of the LRA or the judgment and analyses of the LRA's employees. This addresses how the following conflicts can potentially influence the LRA's credit rating methodologies or credit rating actions:
 - a. being paid to issue a credit rating by the rated entity or issuer.
 - b. being paid by subscribers with a financial interest that could be affected by a credit rating action of the LRA.
 - c. being paid by rated entities or issuers for services other than issuing credit ratings or providing access to the LRA's credit ratings.

- d. providing a preliminary indication or similar indication of credit quality to an entity or issuer prior to being hired to determine the final credit rating for the entity, or issuer and
 - e. having a direct or indirect ownership interest in a rated entity, issuer or having a rated entity or issuer have a direct or indirect ownership interest in the LRA.
- 2.7. LRA should disclose actual and potential conflicts of interest (including, but not limited to, those conflicts of interest identified in Principle 2.6 above) in a complete, timely, clear, concise, specific, and prominent manner. When the actual or potential conflict of interest is unique or specific to a credit rating action with respect to a particular rated entity or issuer, such conflict of interest should be disclosed in the same form and through the same means as the relevant credit rating action.
- 2.8. LRA should disclose the general nature of its compensation arrangements with rated entities or issuers.
- a) When the LRA receives from a rated entity or issuer, compensation unrelated to its credit rating services, the LRA should disclose such unrelated compensation as a percentage of total annual compensation received from such rated entity or issuer in the relevant credit rating report or elsewhere, as appropriate.
 - b) LRA should disclose in the relevant credit rating report or elsewhere, as appropriate, if it receives 5 percent or more of its annual revenue from a single client (e.g., a rated entity or issuer).
- 2.9. LRA will encourage structured finance issuers and originators of structured finance products to publicly disclose all relevant information regarding these products, so that investors and other CRA's can conduct their own analysis independently of LRA.
- 2.10. LRA should not hold or transact in trading instruments presenting a conflict of interest with the LRA's credit rating activities.
- 2.11. In instances where rated entities or issuers (e.g., sovereign nations or states) have, or are simultaneously pursuing, oversight functions related to the LRA, the employees responsible for interacting with the officials of the rated entity or the issuer (e.g., government regulators) regarding supervisory matters should be separate from the employees that participate in taking credit rating actions or developing or modifying credit rating methodologies that apply to such rated entity or issuers.

C. LRA Employee Independence

2.12. Reporting lines for the LRA staff and their remuneration arrangements should be structured to eliminate or effectively manage actual and potential conflict of interest. A LRA analyst should not be remunerated or evaluated on the basis of the amount of revenue that the LRA derives from Clients that the analyst rates or with whom the analyst regularly interacts.

2.13. The LRA shall not appoint any individual as a member of the rating committee who:

- a) has a business development function of LRA or
- b) who initiates or participates in discussions regarding fees or payments with any Client of LRA.

2.14. LRA shall ensure that none of its Key Management Persons, rating committee members, rating analysts, employees, their Connected Parties and parties acting in concert, either directly or indirectly, trade in the securities in respect of which the Client has sought a rating or the securities of a member of a group of companies in instances where the Client is a member of a group of companies, during the period commencing from the day its services have been sought by the Client and until the lapse of two (2) days after the rating report has been released to the market via an Exchange.

Trading in Securities by Key Management Personnel, members of the rating committee and employees shall not be carried out unless such orders are authorized in writing by the compliance officer of LRA. For the purpose of this Rule, 'Trading in Securities' shall mean the buying or selling of a security which has been rated by the LRA or the buying or selling of a security where the issuer of such security has been rated by the LRA.

LRA shall maintain a Restricted Securities List. Key Management Personnel, members of the Rating Committee and employees of the LRA shall not trade in securities which are in the Restricted Securities List.

Securities may be deleted from the Restricted Securities List whenever material non-public information are no longer possessed by the LRA in respect of such entities/securities.

All members of the rating committee shall give an individual declaration certified by an Attorney-at-Law that they will not engage in the process of rating where they have the “capacity to influence”. An employee is deemed to have the “capacity to influence” when his/her independence may be impaired and amongst others include the circumstances set out below:

- a) where he/she owns five per centum (5%) or above of the securities of the rated entity or any entity related and/or connected thereto;
- b) where he/she has had employment or other significant business relationship with the rated entity within the six (6) months immediately preceding such rating;
- c) where he/she has an immediate relation (*i.e.* spouse, child, sibling) who is currently employed by the rated entity; and
- d) where he/she has any affiliation with the rated entity or any agent of the rated entity that could in the particular circumstances be perceived as presenting a conflict of interest.

2.15. The Key Management Persons of the LRA, members of the rating committee and rating analysts shall not have any transactions with or interests in the companies whose securities are rated by them.

2.16. LRA employee should be prohibited from soliciting money, gifts, or favors from anyone with whom the LRA does business and should be prohibited from accepting gifts offered in the form of cash or cash equivalents or any gifts exceeding a minimal monetary value.

2.17. LRA employee who becomes involved in a personal relationship (including, for example, a personal relationship with an employee of a rated entity or issuer that creates an actual or potential conflict of interest should be required under the LRA’s policies, procedures, and controls to disclose the relationship to the compliance officer.

2.18. LRA will strive, where feasible to conduct without any unnecessary delay a retrospective review of the past work of an employee who participated in the credit rating process who leaves the employment of LRA and joins an entity or issuer that the employee participated in rating, as part of his or her duties at LRA.

3. LRA RESPONSIBILITIES TO THE INVESTING PUBLIC, RATED ENTITIES AND ISSUERS

A. Transparency and Timeliness of Credit Ratings Disclosure

- 3.1. LRA should assist investors and other users of credit ratings in developing a greater understanding of credit ratings by disclosing in plain language, among other things, the nature and limitations of credit ratings and the risks of unduly relying on them to make investment or other financial decisions. LRA that is subject to a CRA registration and oversight program administered by a regional or national authority should not state or imply that the authority endorses its credit ratings or use its registration status to advertise the quality of its credit ratings.
- 3.2. LRA should disclose on its website sufficient information about its credit rating process and its credit rating methodologies, so that investors and other users of credit ratings can understand how a credit rating was determined by the LRA.
- 3.3. LRA should disclose on its website a material modification to a credit rating methodology prior to the modification taking effect unless doing so would negatively impact the integrity of a credit rating by unduly delaying the taking of a credit rating action. In either case, the LRA should disclose the material modification in a non-selective manner.
- 3.4. LRA should disclose on its website its policies and procedures that address the issuance of unsolicited credit ratings.
- 3.5. LRA should disclose on its website its policies and procedures for distributing credit ratings and reports, and for when a credit rating will be withdrawn.
- 3.6. LRA should disclose on its website clear definitions of the meaning of each category in its rating scales, including the definition of default.
- 3.7. LRA may assess the viability of differentiating credit ratings of structured finance products from credit ratings of other types of entities or obligations, preferably through a different credit rating identifier in the future. If so, LRA will also publicly disclose how this differentiation functions.
- 3.8. LRA should be transparent with investors, rated entities and issuers about how the relevant entity or obligation is rated.

- 3.9. Where feasible and appropriate, LRA should inform the rated entity or issuer about the critical information and principal considerations upon which a credit rating will be based prior to disseminating a credit rating that is the result or subject of the credit rating action and afford such rated entity or issuer an adequate opportunity to clarify any factual errors, factual omissions, or factual misperceptions that would have a material effect on the credit rating..
- 3.10. When LRA publicly discloses or distributes to its subscribers (depending on the LRA's business model) a credit rating that is the result or subject of the credit rating action, it should do so as soon as practicable after taking such action.
- 3.11. When LRA publicly discloses or distributes to its subscribers (depending on the LRA's business model) a credit rating that is the result or subject of a credit rating action, it should do so on a non-selective basis.
- 3.12. LRA should disclose with a credit rating that is the result or subject of a credit rating action whether the rated entity or issuer has participated in the credit rating process. Each credit rating not initiated at the request of the rated entity or issuer should be identified as such.
- 3.13. LRA should clearly indicate the attributes and limitations of each credit rating, and the extent to which the LRA verifies information provided to it by the rated entity or issuer. For example, if the credit rating involves a type of entity or obligation for which there is limited historical data, LRA should disclose this fact and how it may limit the credit rating.
- 3.14. LRA should indicate in the announcement of a credit rating, that is the result or the subject of a credit rating action, when the credit rating was last updated or reviewed. The credit rating announcement should also indicate the principal credit rating methodology or methodology version that was used in determining the credit rating and where a description of that credit rating methodology can be found.
- 3.15. When rating a structured finance product, LRA should publicly disclose or distribute to its subscribers (depending on the LRA's business model) sufficient information about its loss and cash-flow analysis with the credit rating, so that investors in the product, other users of credit ratings, and/or subscribers can understand the basis for the LRA's credit rating. The LRA should also publicly disclose or distribute information about the degree to which it analyzes how sensitive a credit rating of a structured finance product is to changes in the assumptions underlying the applicable credit rating methodology.

- 3.16. When issuing or revising a credit rating, LRA should explain in its announcement and/or report the key assumptions and data underlying the credit rating, including financial statement adjustments that deviate materially from those contained in the published financial statements of rated entity or issuer.
- 3.17. If LRA discontinues monitoring a credit rating for a rated entity or issuer it should either withdraw the credit rating or disclose such discontinuation to the public or to its subscribers (depending on the LRA's business model) as soon as practicable. A publication by the LRA of a credit rating that is no longer being monitored should indicate the date the credit rating was last updated or reviewed, the reason the credit rating is no longer monitored, and the fact that the credit rating is no longer being updated.
- 3.18. If mandated by the regulatory body, LRA shall publish historic default rates by rating category and whether the default rates of these categories have changed over time. If so mandated, the information so disclosed will include verifiable, quantifiable historical information, organized and structured over a period of time as determined by LRA and, where possible, standardized in such a way to assist investors and other users of credit ratings in comparing different CRAs. Where historical default rates exist for a particular rated entity or obligation but the nature of the rated entity or obligation or other circumstances make a historical transition or default rate inappropriate, statistically invalid, or otherwise likely to mislead investors or other users of credit ratings, LRA shall disclose why this is the case.

B. The Treatment of Confidential Information

- 3.19. LRA shall establish, maintain, document, and enforce policies, procedures, and controls to protect confidential and/or material non-public information, including confidential information received from a rated entity or issuer, and non-public information about a credit rating action (e.g., information about a credit rating action before the credit rating is publicly disclosed or disseminated to subscribers).
- a) The policies, procedures, and controls should prohibit the LRA and its employees from using or disclosing confidential and/or material non-public information for any purpose unrelated to the LRA's credit rating activities, including disclosing such information to other employees where the disclosure

is not necessary in connection with the LRA's credit rating activities, unless disclosure is required by applicable law or regulation.

- b) The policies, procedures, and controls should require the LRA and its employees to take reasonable steps to protect confidential and/or material non-public information from fraud, theft, misuse, or inadvertent disclosure.
- c) With respect to confidential information received from a rated entity or issuer the policies, procedures, and controls should prohibit the LRA and its employees from using or disclosing such information in violation of the terms of any applicable agreement or mutual understanding that the LRA will keep the information confidential, unless disclosure is required by applicable law or regulation.
- d) With respect to a pending credit rating action, the policies, procedures, and controls should prohibit the LRA and its employees from selectively disclosing information about the pending credit rating action, except to the rated entity, issuer or their designated agents, or as required by applicable law or regulation.

3.20. LRA should establish, maintain, document, and enforce policies, procedures, and controls designed to prevent violations of applicable laws and regulations governing the treatment and use of confidential and/or material non-public information.

3.21. LRA should establish, maintain, document, and enforce policies, procedures, and controls that prohibit employees that possess confidential and/or material non-public information concerning a trading instrument from engaging in a transaction in the trading instrument or using the information to advise or otherwise advantage another person in transacting in the trading instrument.

4. GOVERNANCE, RISK MANAGEMENT, AND EMPLOYEE TRAINING

4.1. LRA's board (or similar body) should have ultimate responsibility for ensuring that the LRA establishes, maintains, documents, and enforces a code of conduct that gives full effect to the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies.

4.2. LRA should establish a Board Risk & Compliance Committee made up of a minimum of two Non- Executive Directors. The function is responsible for,

- ✓ Checking whether Monthly Accounts and Quarterly Accounts have been submitted to SEC on the due dates.
- ✓ Overseeing the LRA's compliance with Rules applicable to Credit Rating Agencies, SEC Act No 09 of 2021 and other relevant regulations and requirements.
- ✓ Overseeing all other regulatory and statutory compliance.
- ✓ Identifying, assessing, monitoring and reporting to the board of LRA the risks arising from its activities including, but not limited to legal risk, reputational risk, operational risk and strategic risk.

4.3. LRA should establish, maintain, document, and enforce policies, procedures, and controls requiring employees to undergo formal ongoing training at reasonably regular time intervals. The subject matter covered by the training should be relevant to the employee's responsibilities and should cover, as applicable, the LRA's code of conduct, the LRA's credit rating methodologies, the laws governing the LRA's credit rating activities, the LRA's policies, procedures, and controls for managing conflicts of interest and governing the holding and transacting in trading instruments, and the LRA's policies and procedures for handling confidential and/or material non-public information. The policies, procedures, and controls should include measures designed to verify that employees undergo required training.

5. DISCLOSURE AND COMMUNICATION WITH MARKET PARTICIPANTS

- 5.1. LRA's disclosures, including those specified in the provisions of the IOSCO CRA Code, should be complete, fair, accurate, timely, and understandable to investors and other users of credit ratings.
- 5.2. LRA should disclose with its code of conduct a description of how the provisions of its code of conduct fully implement the provisions of the IOSCO Statement of Principles Regarding the Activities of Credit Rating Agencies and the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (collectively, the "IOSCO provisions"). If the LRA's code of conduct deviates from an IOSCO provision, the CLRA should identify the relevant IOSCO provision, explain the reason for the deviation, and explain how the deviation nonetheless achieves the objectives contained in the IOSCO provisions. The LRA should describe how it implements and enforces its code of conduct. The LRA also should disclose as soon as practicable any changes to its code of conduct or changes to how it is being implemented or enforced.
- 5.3. LRA should establish and maintain a function within its organization charged with receiving, retaining, and handling complaints from market participants and the public. The function should establish, maintain, document, and enforce policies, procedures, and controls for receiving, retaining, and handling complaints, including those that are provided on a confidential basis. The policies, procedures, and controls should specify the circumstances under which a complaint must be reported to senior management and/or the board (or similar body).
- 5.4. LRA should publicly and prominently disclose free of charge on its website:
- a) the LRA's code of conduct.
 - b) a description of the LRA's credit rating methodologies.
 - c) information about the LRA's historic performance data; and
 - d) any other disclosures specified in the provisions of the IOSCO CRA Code as applicable given the LRA's business model.

6 DIFFERENCES & DEVIATIONS

There are certain differences between the LRA code and the IOSCO Code. Some differences are merely textual, some are different but not substantive and some are substantive.

Non substantive and textual differences:

Provisions 1.18, 1.20 , 1.21, 1.22 , 2.1 ,2.4 ,2.6 (a). 2.6 (b) , 2.6(d) , 2.6(e) , 2.7, 2.8, 2.11, 2.13, 2.15,2.17 2.18 , 3, 3.8,3.9 , 3.12 , 3.13 , 3.16 , 3.17 , 3.18 , 3.19, have been modified by removing reference to obligors, arrangers and underwriters. This is because LRA has interactions only with rated entities and their agents and not with obligors, arrangers and underwriters.

In some provisions, most notably 1.22, 2.6, 2.7, 2.12 (a) , 2.13, 2.14, 3.9 and 3. 16 , the term “obligor” was omitted and “issuer” used instead, as the only interaction LRA has with an obligor (as defined in the CRA Code) is when an obligor issues a rated security. Thus, the word issuer is better suited in that context.

LRA employees would not be aware of any obligors, underwriters or arrangers unless they are directly the clients of LRA, as entities to be rated. A CRA can only be expected to interact with the rated entity or its designated agents. However, LRA will consider incorporating duties towards these bodies if and when the LRA model expands /products being rated expand and interactions with these bodies are thereby necessitated.

Substantive deviations:

The substantive differences are intended to reflect LRA’s rating process and the local practices and business environment in which LRA operates. The following section highlights these substantive variations and state how nevertheless the objectives of the IOSCO Code are achieved, and the IOSCO principles adhered to. These deviations are found in the LRA Code as at October 2023 and would continue to be identified as deviations in this Code.

LRA CODE	IOSCO Code	Remarks
1.9 The records should be retained for six years to promote the integrity of the LRA’s credit rating process, including to permit internal audit, compliance, and quality control functions to review past	1.9 The records should be retained for as long as necessary to promote the integrity of the CRA’s credit rating process, including to permit internal audit, compliance, and	As per SEC requirement all records should be maintained for six years.

credit rating actions in order to carry out the responsibilities of those functions.	quality control functions to review past credit rating actions in order to carry out the responsibilities of those functions.	
1.11 LRA shall require the criteria oversight committee, comprising of one or more senior managers, at least once every twelve months, review all aspects of LRA's credit rating methodologies (including models and key assumptions) and significant changes to the credit rating methodologies.	1.12.A CRA should establish and maintain a review function made up of one or more senior managers with appropriate experience to review the feasibility of providing a credit rating for a type of entity or obligation that is materially different from the entities or obligations the CRA currently rates. 1.13 Where feasible and appropriate for the size and scope of its credit rating business, this function should be independent of the employees who are principally responsible for determining credit ratings.	The requirement of having independent review function is not included in the LRA Code. LRA believes that given the size of the Sri Lankan market, it is not feasible to maintain a separate team for this purpose. The review function is done by the Criteria Oversight Committee (consisting of senior management personnel) who are also involved in the rating process. LRA believes that, nonetheless, independence of the process is maintained, and any potential conflict of interest will be avoided due to the multi layered rating process. The substance of the IOSCO Code has therefore been captured in this provision.
1.16 Removed since we do not have an analytical team.	1.16. If a CRA uses separate analytical teams for determining initial	LRA does not have separate analytical teams. LRA may use the same analytical

	credit ratings and for subsequent monitoring of existing credit ratings, each team should have the requisite level of expertise and resources to perform their respective functions in a timely manner.	teams to determine initial ratings and subsequent monitoring. But LRA uses its best endeavours to rotate the analysts for each rating. LRA believes that this practice will address the objective of the provision. LRA reviews feasibility of having separate teams on a regular basis.
1.18. Prior to the commencement of a rating or during such process the LRA shall not promise, assure or guarantee to a Client that a particular rating will be assigned.	1.20. A CRA and its employees should not, either implicitly or explicitly, give any assurance or guarantee to an entity subject to a rating action, obligor, originator, underwriter, arranger, or user of the CRA's credit ratings about the outcome of a particular credit rating action. This does not preclude the CRA from developing preliminary indications in a manner that is consistent with Provisions 1.22 and 2.6(d) of the IOSCO CRA Code	As per Rules applicable to Credit Rating Agencies issued by SEC Sri Lanka Act No 19 of 2021 the clause is added. Rule no 39

2.8 (b) LRA should disclose in the relevant credit rating report or elsewhere, as appropriate, if it receives 5 percent or more of its annual revenue from a single client (e.g., a rated entity or issuer).	2.8 (b) A CRA should disclose in the relevant credit rating report or elsewhere, as appropriate, if it receives 10 percent or more of its annual revenue from a single client (e.g., a rated entity, obligor, originator, lead underwriter, arranger, or subscriber, or any of their affiliates).	As per Rules applicable to Credit Rating Agencies issued by SEC Act No 19 of 2021, Rating Agencies should disclose in the relevant credit rating report or elsewhere as appropriate if it receives 5 percent or more of its annual revenue from a single client. (rule no 75)
2.9 LRA will encourage structured finance issuers and originators of structured finance products to publicly disclose all relevant information regarding these products, so that investors and other CRA's can conduct their own analysis independently of LRA	2.9 A CRA should disclose in its credit rating announcement whether the issuer of a structured finance product has informed the CRA that it is publicly disclosing all relevant information about the obligation being rated or if the information remains non-public.	LRA's code should not encourage or suggest structured finance issuers and originators of structured finance products to publicly disclose all relevant information regarding these products, so that investors and other CRA's can conduct their own analysis independently of LRA".
2.12 Reporting lines for the LRA staff and their remuneration arrangements should be structured to eliminate or effectively manage actual and potential conflict of interest. A) A LRA analyst should not be remunerated or evaluated on the basis of the amount of	2.12 Reporting lines for CRA employees and their compensation arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest. a. A CRA employee who participates in or who might	As per Rules applicable to Credit Rating Agencies issued by SEC Sri Lanka Act No 19 of 2021 the clause is added. Rule no 66 & 67

revenue that the LRA derives from Clients that the analyst rates or with whom the analyst regularly interacts.	otherwise have an effect on a credit rating action with respect to an entity or obligation should not be compensated or evaluated on the basis of the amount of revenue that the CRA derives from that entity or obligor. b. A CRA should conduct formal and periodic reviews of its compensation policies, procedures, and practices for CRA employees who participate in or who might otherwise have an effect on a credit rating action to ensure that these policies, procedures, and practices have not compromised and do not compromise the objectivity of the CRA's credit rating process.	
2.13. The LRA shall not appoint any individual as a member of the rating committee who: (a) has a business development function of LRA or (b) who initiates or participates in discussions regarding fees or	2.13.A CRA's employees who participate in or who might otherwise have an effect on a credit rating action should not initiate or participate in discussions with rated entities, obligors,	As per Rules applicable to Credit Rating Agencies issued by SEC Sri Lanka Act No 19 of 2021 the clause is added. Rule no 28

payments with any Client of LRA	arrangers, or subscribers regarding fees or payments charged to such rated entity, obligor, arranger, or subscriber.	
2.14. LRA shall ensure that none of its Key Management Persons, rating committee members, rating analysts, employees, their Connected Parties and parties acting in concert, either directly or indirectly, trade in the securities in respect of which the Client has sought a rating or the securities of a member of a group of companies in instances where the Client is a member of a group of companies, during the period commencing from the day its services have been sought by the Client and until the lapse of two (2) days after the rating report has been released to the market via an Exchange.	2.14.A CRA employee should not participate in or otherwise influence a CRA's credit rating action with respect to an entity or obligation if the employee, an immediate family member of the employee (e.g., spouse, domestic partner, or dependent), or an entity managed by the employee (e.g., a trust): a. Holds or transacts in a trading instrument issued by the rated entity or obligor; b. Holds or transacts in a trading instrument (other than a diversified collective investment scheme) that itself owns an interest in the	As per Rules applicable to Credit Rating Agencies issued by SEC Sri Lanka Act No 19 of 2021 the clause is added. Rule no 65, 71, 72, 73 & 74 Refer "Staff Trade Policy"

Trading in Securities by Key Management Personnel, members of the rating committee and employees shall not be carried out unless such orders are authorized in writing by the compliance officer of LRA. For the purpose of this Rule, 'Trading in Securities' shall mean the buying or selling of a security which has been rated by the LRA or the buying or selling of a security where the issuer of such security has been rated by the LRA. LRA shall maintain a Restricted Securities List. Key Management Personnel, members of the Rating Committee and employees of the LRA shall not trade in securities which are in the Restricted Securities List. Securities may be deleted from the Restricted Securities List whenever material	rated entity or obligor, or is a derivative based on a trading instrument issued by the rated entity or obligor; c. Holds or transacts in a trading instrument issued by an affiliate of the rated entity or obligor, the ownership of which may cause or may be perceived as causing a conflict of interest with respect to the employee or the CRA; d. Holds or transacts in a trading instrument issued by a lead underwriter or arranger of the rated obligation, the ownership of which may cause or may be perceived as causing a conflict of interest with respect to the employee or the CRA; e. Is currently employed by, or had a recent employment or other significant business relationship with the rated entity or obligor or a lead underwriter or arranger of the rated obligation that	
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non-public information are no longer possessed by the LRA in respect of such entities/securities. All members of the rating committee shall give an individual declaration certified by an Attorney-at-Law that they will not engage in the process of rating where they have the “capacity to influence”. An employee is deemed to have the “capacity to influence” when his/her independence may be impaired and amongst others include the circumstances set out below: (a) where he/she owns five per centum (5%) or above of the securities of the rated entity or any entity related and/or connected thereto; (b) where he/she has had employment or other significant business relationship	may cause or may be perceived as causing a conflict of interest; f. Is a director of the rated entity or obligor, or lead underwriter or arranger of the rated obligation; or g. Has, or had, another relationship with or interest in the rated entity, obligor, or the lead underwriter or arranger of the rated obligation (or any of their affiliates) that may cause or may be perceived as causing a conflict of interest.	
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with the rated entity within the six (6) months immediately preceding such rating; (c) where he/she has an immediate relation (i.e. spouse, child, sibling) who is currently employed by the rated entity; and (d) where he/she has any affiliation with the rated entity or any agent of the rated entity that could in the particular circumstances be perceived as presenting a conflict of interest.		
2.15. The Key Management Persons of the LRA, members of the rating committee and rating analysts shall not have any transactions with or interests in the companies whose securities are rated by them.	2.15.A CRA analyst should not hold or transact in a trading instrument issued by a rated entity or obligor in the analyst's area of primary analytical responsibility. This would not preclude an analyst from holding or trading a diversified collective investment scheme that owns a trading instrument issued by a rated entity or obligor in the analyst's area of primary analytical responsibility.	As per Rules applicable to Credit Rating Agencies issued by SEC Sri Lanka Act No 19 of 2021 the clause is added. Rule no 70 Refer "Staff Trade Policy"

2.18 LRA will strive, where feasible to conduct without any unnecessary delay a retrospective review of the past work of an employee who participated in the credit rating process who leaves the employment of LRA and joins an entity or issuer that the employee participated in rating, as part of his or her duties at LRA.	2.18 CRA should establish, maintain, document, and enforce policies, procedures, and controls for reviewing without unnecessary delay the past work of an analyst who leaves the employ of the CRA and joins an entity that the employee participated in rating, an obligor whose obligation the employee participated in rating, an originator, underwriter, or arranger with which the employee had significant dealings as part of his or her duties at the CRA, or any of their affiliates.	LRA employment letter has a clause “You shall refrain from seeking employment in any local or foreign firm located in Sri Lanka who is a market intermediary, credit rating agency, research agency, financial institution or any other organization that may benefit from the information you have been privy to for a period of 1 year after termination of your employment under clauses 13 & 14.
3.7 LRA may assess the viability of differentiating credit ratings of structured finance products from credit ratings of other types of entities or obligations, preferably through a different credit rating identifier in the future. If so, LRA will also publicly disclose how this differentiation functions.	3.7A CRA should differentiate credit ratings of structured finance products from credit ratings of other types of entities or obligations, preferably through a different credit rating identifier. The CRA should also disclose how this differentiation functions.	LRA uses the same rating scale and rating symbols for structured finance and traditional corporate bonds. LRA believes that LRA’s traditional rating scales provide a common yardstick for the evaluation and comparison of the relative credit risks.
3.18. If mandated by the regulatory body, LRA will	3.18. To promote transparency and to enable	Given the limited size and stage of development of the

publish historic default rates by rating category and whether the default rates of these categories have changed over time. If so mandated, the information so disclosed will include verifiable, quantifiable historical information, organized and structured over a period of time as determined by LRA and, where possible, standardized in such a way to assist investors and other users of credit ratings in comparing different CRAs. Where historical default rates exist for a particular rated entity or obligation but the nature of the rated entity or obligation or other circumstances make a historical transition or default rate inappropriate, statistically invalid, or otherwise likely to mislead investors or other users of credit ratings, LRA will disclose why this is the case.	investors and other users of credit ratings to compare the performance of different CRAs, a CRA should disclose sufficient information about the historical transition and default rates of its credit rating categories with respect to the classes of entities and obligations it rates. This information should include verifiable, quantifiable historical information, organized over a period of time, and, where possible, standardized in such a way to assist investors and other users of credit ratings in comparing different CRAs. If the nature of the rated entity or obligation or other circumstances make such historical transition or default rates inappropriate, statistically invalid, or otherwise likely to mislead investors or other users of credit ratings, the CRA should disclose why this is the case.	agency, LRA believes, this will not necessarily assist investors in drawing performance comparisons. As the portfolio size is small, the performance data might not be statistically significant. LRA credit ratings may be measuring different metrics than the other CRAs and therefore standardizing and comparing metrics across CRAs might not be meaningful. Further as other CRAs are not currently disclosing this information, disclosure by LRA alone would not serve the purpose of enabling comparisons. Hence LRA will publish information if all CRAs are mandated to do so by the regulatory body. LRA, however, will review on a regular basis the feasibility of calculating and publishing the historic default rates.
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