

## Actual and potential conflicts of interests

In accordance with Section E, Part I, Point 1 of Regulation (EC) № 1060/2009, with this document, BCRA – Credit Rating Agency AD (BCRA) publishes „any actual or potential conflicts of interest that may influence the analyses and judgments of its [BCRA’s] rating analysts, employees, or any other natural person whose services are placed at the disposal or under the control of the credit rating agency and who are directly involved in credit rating activities and persons approving credit ratings and rating outlooks“. Supplementary publications with regard to the management of the conflicts of interests are published on BCRA’s website ([www.bcra-bg.com](http://www.bcra-bg.com)) in the documents „Code of Professional Conduct“, „Compensation Arrangements“ and in the Annual Transparency Reports.

- 1. Conflicts of interest with related third parties** – Related third parties in the sense of Regulation (EC) № 1060/2009 of the European Parliament and Council of 16 September 2009, means the originator, arranger, sponsor, servicer or any other party that interacts with BCRA on behalf of a rated entity, including any person directly or indirectly linked to that rated entity by control.
- BCRA and its employees, participating in credit rating activities or persons closely associated with them<sup>1</sup> potentially could:
    - Receive monetary or non-monetary benefits, or preferential attitude in economic relationships or promises for such from the client or other person influenced by the rating<sup>2</sup>;
    - Have access to financing or receive preferential financing or a promise for such financing from the client or other persons influenced by the rating;
    - Participate in the Management or Supervisory Board of the client or other person influenced by the rating;

Article 1 and Article 2 of the Code of Professional Conduct (please, see [www.bcra-bg.com](http://www.bcra-bg.com)) deal with credit rating quality and the rating process, as well as the independence of the decision-making process.

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<sup>1</sup> „Closely associated person“ is defined in accordance with Article 1, Paragraph 2 of the Directive 2004/72/EC as:

- a) spouse, or any partner of that person considered by the national law as equivalent to the spouse;
- b) according to the national law, dependent children of the person;
- c) other relatives who have shared the same household for at least one year;
- d) any legal person, trust or partnership, whose managerial responsibilities are discharged by a person referred to in letters a), b) and c), or which is directly or indirectly controlled by such a person, or that is set up for the benefit of such a person, or whose economic interests are substantially equivalent to those of such a person.

<sup>2</sup> The entities which were influenced by the credit rating may be, for example, entities connected in some way with the rated entity or issuer of the rated financial instrument, entities investing in the rated entity or in the rated financial instruments, entities whose business transactions depend on the rating, entities whose regulatory compliance depend on the rating, etc.

## **2. Conflicts of interest associated with the ancillary services provided**

- BCRA or its employees participating in credit rating activities or persons closely associated with them potentially could:
  - Submit ancillary services to the client or other person influenced by the rating;

BCRA offers only ancillary services permitted by Regulation (EC) № 1060/2009. BCRA's Annual Transparency Reports include information for ancillary services provided and the revenues from such services for the year. In addition, information on ancillary services is included in the public resumes of credit ratings of these rated entities to which ancillary services were provided.

## **3. Conflicts of interest regarding the independence of the rating process from the compensation received by BCRA.**

- BCRA receives remuneration for assigned credit rating from the client who is the issuer of the credit rating. The client is usually the rated entity itself or the issuer of the rated financial instrument, or a related entity (for short, henceforth called „the Client“). This potential conflict of interest is inherent to the business model of most credit rating agencies, except these operating under the investor-pays business model.

In its Annual Transparency Reports, BCRA names all clients from whom the annual revenues exceed 5 % of the total net revenues from operating activities for the year. The document „Compensation Arrangements“ (please, see [www.bcra-bg.com](http://www.bcra-bg.com)) gives additional information regarding the pricing process in BCRA.

## **4. Conflicts of interest associated with the controls over the security of confidential information.**

- BCRA or its employees participating in credit rating activities or persons closely associated with them potentially could:
  - Use the confidential information given by the client or internal information related to the rating process or the assigned credit rating and outlook for his own gain or somebody else's.

Article 3(C) of Code of Professional Conduct (please, see [www.bcra-bg.com](http://www.bcra-bg.com)) describes the steps taken by BCRA for the management of risks arising from this conflict of interests.

## **5. Conflicts of interests associated with the ownership and trade of securities.**

- BCRA or its employees participating in credit rating activities or persons closely associated with them could:
  - Possess financial instruments of the client or other person influenced by the rating.

Article 2 of Code of Professional Conduct (please, see [www.bcra-bg.com](http://www.bcra-bg.com)) treats the matter of the independence in decision making of credit ratings.

## **6. Conflicts of interest associated with the activities of BCRA's shareholders.**

- The shareholders of BCRA potentially could:

- Participate in the administrative or supervisory boards of other credit rating agencies;
- Have the right or the power to employ or remove members of these boards;
- Own 5 % of more of the capital of other credit rating agencies;
- Have the right to vote or the power to exercise 5 % or more of the right to vote in other CRAs;
- Exercise, or have the power to exercise control and dominating influence on other credit rating agencies.

The Annual Transparency Reports contain information regarding the ownership structure of BCRA and Regulation (EC) N° 1060/2009 closely restricts the activities of the owners that could potentially lead to conflicts of interest.