

Approved by National Fund Association

President of the Board

A. Artynin

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CODE OF PROFESSIONAL ETHICS FOR RUSSIAN RATING AGENCIES

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1. GENERAL TERMS

The purpose of this Code is to establish ethical standards for Russian rating agencies in order to strengthen the level of protection provided to investors, increase transparency and improve performance in the national economy as a whole and the financial markets in particular, and to provide regulatory bodies with objective assessments of asset quality.

The basic provisions and principles outlined in this Code are appropriate for all rating agencies registered within the Russian Federation regardless of their area of expertise.

The guidelines laid out in the Code are neither immutable nor exhaustive. A certain degree of flexibility is allowable, making it possible to adapt them for inclusion in individual codes of professional ethics adopted by individual rating agencies or in response to the full range of legal nuances and market conditions.

The basic provisions and principles contained in this Code are intended to serve as practical guidance for rating agencies that have declared their intention to adhere to the Code. Adherence to this code by a rating agency should serve as an assurance to regulatory bodies and investors that evaluations of the quality of financial instruments provided by the agency in question are a reliable source of information.

This Code constitutes a collection of principles and recommendations. Any rating agency that adopts its provisions should do so with the aim of improving the quality of its ratings and evaluation in the eyes of actual or potential investors and regulatory bodies. The Code cannot be adopted in part but only as a complete and indivisible set of principles and recommendations.

The decision to adhere to the Code of Professional Ethics for Russian Rating Agencies is affirmed by an agency's public statement to that effect as duly reported in the media, as well as by an appropriate letter informing the Central Bank of Russia, Russian Federation Ministry of Finance and Federal Financial Markets Service of that decision.

This Code was developed by the National Securities Association's working group on ratings, which includes representatives from the rating agencies AK&M, NRA and RusRating. It takes into consideration the fundamental standards laid down in the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies; the acceptability criteria for rating agencies included in the Basel Committee on Banking Oversight's "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II); and the best practice of Russian rating agencies.

2. INTRODUCTION

The activities of Russian rating agencies are aimed at increasing informational transparency in the Russian economy and financial market. Russian rating agencies base their rating methodologies on principles that take into consideration the distinctive features of the Russian economy, accepted norms of Russian business and the Russian legal environment.

In the preparation of ratings Russian rating agencies function as corporate bodies guided by the norms of Russian legislation, including whatever domestic reporting and accounting standards are currently in effect, as well as their own individual methodologies.

Russian rating agencies have as a key goal the provision of honest, objective and independent assessments of one or another aspect of an economic entity or financial asset (particularly the associated credit risk) to both market participants and regulatory bodies.

The basic principles that should serve to guide the activity of Russian rating agencies are laid out below.

3. BASIC PRINCIPLES GOVERNING THE ACTIVITY OF RUSSIAN RATING AGENCIES

In carrying out their activities and in determining their ratings Russian rating agencies should be guided by the following principles:

- 1. Ratings should be objective.**
- 2. Ratings should be honest.**
- 3. Ratings should be independent.**
- 4. Ratings and the rating process should be transparent.**
- 5. The methodology used in preparing ratings should be verifiable.**
- 6. The rating process should be continuous (i.e. ratings should be monitored over time).**
- 7. A rating agency should have adequate human resources to carry out its rating function.**
- 8. A rating agency should observe confidentiality and take steps to protect that confidentiality.**
- 9. A rating agency should make use of standard definitions to characterise its rating process.**

Ratings should be objective

A rating agency should follow established procedures to ensure that its assessments are founded on a thorough analysis of all available information within the context of its rating methodology.

A rating methodology is based on objective information received from the rated entity or other reliable sources.

All sources of information should be known and identified in the rating report. Such sources may include official statistics, the media, information provided by the rated entity itself, and the agency's own information.

A rating is not determined by a single analyst but rather through a collective decision-making process (by a rating council, rating committee, etc.) and reflects the point of view of the rating agency.

The methodology used in determining ratings includes not only a subjective analysis of various available information but also algorithms making use of formalised data that are subject to verification.

Ratings should be honest

A rating agency and its analysts should not publish unfounded ratings, reports or other materials including unreliable information that could mislead an investor in terms of the validity of expressed assessment.

A rating agency and its employees should not openly or otherwise pledge or guarantee the assignment of a particular rating until the rating process is complete.

A rating agency and its employees should maintain an honest partnership with rated entities, investors and other market participants, as well as with society as a whole.

Ratings should be independent

A rating reflects the rating agency's own independent point of view.

The remuneration received by an agency's analysts (those responsible for the preparation of a rating report) should not be influenced by the number of rating contracts.

A rating agency and its employees should not deal in securities or their derivatives in such a way as to create a possible conflict of interest in the agency's functioning.

Employees of a rating agency who are directly involved in the rating process should not enter negotiations with or initiate discussion of possible remuneration by a rated business.

Ratings and the rating process should be transparent

All basic aspects of the rating process and indicators used in that analysis, as well as the procedure used in determining a rating, should be publicly identified on the agency website.

All key factors taken into consideration by a rating agency in the process of assigning a rating should be explicitly identified in press releases whose contents are accessible to a wide range of investors and regulatory bodies, as well as being included in any rating report provided to the party that requested the rating.

Any participation by the rated entity in the process of preparing a rating should be disclosed by the rating agency.

Prior to the moment when a rating requested by a rated entity is assigned or revised, assuming that the rating agency has the capacity to do so and that conditions are such as to make such a step possible, that agency should inform the rated entity of the basis for its rating and the key factors that influenced its assessment, providing the borrower with an opportunity to clarify any possible misunderstanding of a relevant fact or any other issue that should be taken into consideration in the assigning of a proper rating.

The methodology used in preparing ratings should be verifiable

The methodology used in preparing ratings should be verifiable. Investors and regulatory bodies should be given the opportunity to receive an explanation of any aspect of the rating process, including the methodology used.

The rating process should be continuous (i.e. ratings should be monitored over time)

A rating is an evaluation as of a given point in time and should be confirmed or revised at periodic intervals, taking into consideration the changing economic situation.

A rating agency should monitor its ratings and update them on the basis of:

- a. periodic re-evaluations of the assigned rating;
- b. regular re-evaluation of the rating in the event that it receives any new information likely to result in the application of a rating procedure (including withdrawal of the rating) in accordance with the methodology used by that agency.

A rating agency should always indicate the date on which a rating was last reviewed.

If a rating has been made public the rating agency should likewise publicly announce any cessation in its provision of that rating. Where such an announcement is made, the rating agency should indicate the date on which the rating was last reviewed and the date on which it ceased to be in effect.

A rating agency should have adequate human resources to carry out its rating function

A rating agency should make use of highly-qualified personnel equipped with the essential professional knowledge, skills and experience needed to carry out its functions as a rating agency.

The organisational structure of a rating agency should ensure that personnel responsible for carrying out the rating process can perform that function systematically and continually with objectivity, honesty and lack of bias.

A rating agency should observe confidentiality and take steps to protect that confidentiality

A rating agency should establish rules and procedures to ensure the confidentiality of any information provided by a rated entity in the context of confidentiality agreement or on the basis of an understanding that the information was provided in confidence. In the absence of other directions, and so long as there is no violation of current legislation and regulatory norms, a rating agency and its employees should not distribute such information via press releases; at professional conferences; to potential colleagues, investors, borrowers or other parties; or in any other manner.

The employees of a rating agency should not disclose to any party other than the rated entity or its authorised agent any non-public information about its rating or a preliminary assessment of that rating.

The employees of a rating agency should take all reasonable steps to protect the property and documents of the rating agency from fraud, theft or other unintended use.

The employees of a rating agency should not use or distribute confidential information for the purpose of trading in securities or any other purpose.

A rating agency should make use of standard definitions to characterise its rating process

A rating agency should make use of a standard terminology, the meaning of which is plainly understood by users of ratings and other parties who receive its assessments. Some of the terminology used in the work of rating agencies is discussed in the appendix that follows.

Key terms and definitions used by Russian rating agencies.

Rated entity – a corporate body; group of corporate bodies; or government organ at the federal, sub-federal or municipal level (referred to as a rated party); and/or a financial asset; and/or a category of such.

Rating – an indicator of assessed worth that, in the opinion of the rating agency, is appropriate for a given rated entity at a particular point in time or during a particular period of time.

Commentary. A rating may also be assigned to a rated entity for the purpose of assessing a particular characteristic of that entity, such as credit risk, the quality of corporate governance, reliability, attractiveness to investors, liquidity risk, etc.

Rating dimension – a collection of inter-related financial and business indicators for the rated entity that are of interest to rating users, determined through a process of expert analysis that takes into consideration both qualitative and quantitative factors.

Rating scale – a sequential series of symbols previously defined by a rating agency that serves to rank possible assessments of the rating dimension. The scale includes a name and letter designation for each position (level) in the sequence plus a description of the distinguishing features of that position.

Rating categories. Rating categories serve to classify ratings by their value to different classes of user.

Category	Distinguishing features	Investor expectations
Maximum	Users of ratings in this category require no special knowledge or financial training.	Likelihood that an investment will be lost is extremely low.
Standard	Users of ratings in this category may be required to apply common business sense.	Some likelihood that an investment will be lost or payment delayed. An investor should diversify resources in accordance with common business sense in order to reduce risks.
Speculative	Users of ratings in this category require professional experience.	The investor should expect losses and chose the object of investment with care for the overall portfolio to generate desired results.

Rating agencies should identify the correspondence between the above categories and the letter designations in their rating scales.

Rating user – a current or potential investor, government body, financial institution, etc. with an interest in receiving information about the activities of a rated entity or group of rated entities.

Rating agency – a corporate body that defines a rating dimension for a particular class of rated entities, as well as defining a rating scale for that rating dimension, developing a rating methodology appropriate to each class of rated entity and assigning ratings to those entities.

Rating methodology – an internal document of a rating agency that outlines the range of factors and methods, both qualitative and quantitative, that it uses in the process of evaluating the characteristics of a rated entity and assigning a rating to that entity. The methodology identifies specific indicators along with a system of weights reflecting the relative importance of those indicators and allows for the application of expert opinion in classifying the results in accordance with a rating scale.

Ranking – a list of entities sorted on the basis of a particular indicator (a quantitative measure of some economic characteristic of interest in the ranked entities). The ranking determines a numerical identifier that corresponds to an entity's position in the list.

Rating assignment – the use of a rating agency's rating methodology to determine the value of the rated dimension appropriate to a given rated entity, as well as the issue of a rating report that provides a basis for the expert assessment expressed in that value.