

A.M. Best Asia-Pacific Ltd
Hong Kong Public Disclosure Report
2017

Hong Kong Annual Public Disclosure Report

This report is published in accordance with the requirements of Part 4 of the Code of Conduct for Persons Providing Credit Rating Services which was published by the Securities and Futures Commission in June 2011.

It is a requirement that a Credit Rating Agency (CRA), registered in Hong Kong, publicly discloses, on an annual basis, the general details of its Code of Conduct and how it implements the provisions of the Code of Conduct for Persons Providing Credit Rating Services.

The CRA is also required publicly to disclose details of its internal control mechanisms, its record keeping policy and its management and analyst rotation policy.

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Background

A.M. Best Asia-Pacific Limited (“AMBAP”) is a subsidiary of A.M. Best Rating Services Inc. (“AMBR”) a company incorporated in Delaware, USA and with its Head Office in New Jersey, USA. AMBAP has been registered with the Securities and Futures Commission (“SFC”) in Hong Kong since 13 August 1999 and licenced since 1 June 2011.

A.M. Best has been producing credit ratings and opinions on the insurance market for over 100 years. In recent years, A.M. Best has expanded its geographical coverage from its principal market in the United States to cover the Americas, Europe, Middle East, Africa and the Asia-Pacific region. As at 31 December 2016, A.M. Best had credit rating operations based in Oldwick (New Jersey), London, Hong Kong, Singapore and Mexico City.

A.M. Best currently has regulatory registrations in:

- The USA (A.M. Best Rating Services, Inc. – “AMBR”)
- Brazil (AMBR)
- The European Union (A.M. Best Europe - Rating Services Limited – “AMBERS”)
- Dubai (AMBERS) - Representative Office only
- Hong Kong (A.M. Best Asia-Pacific Limited – “AMBAP”)
- New Zealand (AMBAP)
- Australia (AMBAP)
- Singapore (A.M. Best Asia-Pacific (Singapore) Pte. Limited – “AMBAPS”)
- Mexico (A.M. Best América Latina, S.A. de C.V – “AMBAL”)

A.M. Best is renowned for its experience and knowledge of the insurance sector and currently provides ratings to circa 3,500 entities in that market.

The credit ratings issued by A.M. Best are independent opinions regarding the creditworthiness of an obligor, issuer or a debt obligation; the ratings are based on a quantitative and qualitative evaluation of a company’s balance sheet strength, operating performance and business profile, or, where appropriate, the specific nature and details of a security. In common with most other rating agencies, A.M. Best operates on an issuer pays model which allows the public to gain free access to the published rating opinions.

The credit rating opinions are forward-looking, rather than a backwards verification of facts. Best’s credit ratings are assigned using a number of simple, straight-forward scales, with each scale representing a rank ordering of our opinion of the relative creditworthiness of an insurer, issuer or financial instrument. For example, insurers that are assigned higher credit ratings are deemed to be less likely, in our opinion, to become financially impaired than insurers that are assigned lower credit ratings. While ratings reflect our opinions of relative creditworthiness at the time they are assigned, they are not indicators or predictors of defined impairment or default probabilities with respect to any specific insurer, issuer or financial obligation. The ratings themselves are opinions of relative credit risk. Therefore, users of ratings should consider the rating assigned to an entity alongside other information in order to reach an informed opinion.

AMBAP currently assigns two types of ratings:

- Financial Strength Ratings (FSRs) – These are an independent opinion of an insurer’s financial strength and ability to meet its ongoing insurance policy and contract obligations. This type of rating is assigned to insurance companies.
- Issuer Credit Ratings (ICRs) – These are an independent opinion of an entity’s ability to meet its ongoing financial obligations. This rating is assigned to insurance companies and their related



holding companies as well as other legal entities authorised to issue financial obligations. This rating can be issued on either a long- or short-term basis.

A.M. Best's credit ratings are not a warranty, nor are they a recommendation to buy, sell, hold or trade any securities or insurance related products. They do not address the suitability of any particular financial obligation for specific purposes or for potential purchasers.

Code of Conduct

In June 2011, the Securities and Futures Commission (“SFC”) published the ‘Code of Conduct for Persons Providing Credit Rating Services’ (“CCPPCRS”). The CCPPCRS is based on the International Organisation of Securities Commissions’ Code of Conduct Fundamentals for Credit Rating Agencies (“IOSCO CRA Code”).

The Group historically maintained a single Code of Conduct which was derived from the IOSCO CRA Code. On 1 March 2014, AMBAP adopted a separate Code of Conduct which was developed to meet Australian licensing requirements. Since 1 January 2016, the Group has reverted to a single Group-wide Code of Conduct (“the AMBRS Code of Conduct”), which encompasses the provisions of the IOSCO CRA Code. The Code sets forth fundamental business practices that should be followed by the Group and its employees globally. The AMBRS Code of Conduct is publicly disclosed on the Group’s website:

<http://www.ambest.com/nrsro/code.pdf>

The AMBRS Code of Conduct should be read in conjunction with its Global Policies and Procedures which, when taken together, implement the requirements of the CCPPCRS.

It should be emphasised that the A.M. Best Group specialises in providing ratings exclusively to the insurance sector. Neither AMBAP nor its subsidiary company (AMBAPS) which is domiciled in Singapore, issues Structured Finance Ratings, or provides Sovereign Ratings.

AMBAP is solely concerned with the production of credit ratings. The wider Group provides a range of insurance-information products and reports to the insurance sector. However, these revenue streams do not form part of the accounting figures for AMBAP.

In accordance with the CCPPCRS, AMBAP is required to disclose the parties (i.e. a single issuer, originator, arranger, client or subscriber and/or any affiliate of such issuer, originator, arranger, client or subscriber) where total remuneration exceeds 5% of the Company’s total annual revenue. The total remuneration from one organization, China Investment Corporation, exceeded the 5% of total annual revenue disclosure threshold for the year ended 31 December 2016. No other single issuer or organisation’s remuneration was over 5% of AMBAP’s total annual revenue for the year ended 31 December 2016.

The AMBRS Code of Conduct states that the Compliance Officer of AMBRS is responsible for communicating with market participants and the public about any questions, concerns or complaints that the Group receives concerning adherence to this AMBRS Code of Conduct.

The Group has established various reporting and monitoring systems, which are used across the Group, to track employee compliance with key elements of the Code of Conduct. For example, Best’s Quarterly Policy C-5 Reporting System is used to track employee disclosures of potential conflicts, and for the subsequent monitoring undertaken by the Compliance Department regarding potential conflicts. This system requires all employees to affirm their compliance with AMBRS’ Confidentiality, Firewall, Conflicts of Interest, and Securities Trading and Reporting Policy (“Policy C-5”) to protect our reputation against actual and perceived conflicts of interest or other potential threats to our honesty and integrity.

All employees are required to be familiar with and to comply with Policy C-5, and the Group’s other policies and procedures, and the AMBRS Code of Conduct (collectively referred to as “Best’s Policies”). Violations of Best’s Policies (including failure to comply with the Policy C-5 reporting requirements and failure to comply with Policy C-5’s requirements in a timely manner) may lead to disciplinary action by the Group, up to and including termination of employment.

Internal Control Mechanisms Ensuring Quality of Credit Rating Activities

Policies and Procedures

The Group has implemented and maintains its policies, procedures and guidelines on a global basis to reflect the global nature of the credit rating business. The Group believes that the users of credit ratings are best served when there is a single recognisable standard that provides direct comparisons which have a single interpretation and meaning that are not subject to national or regional variations.

All of the policies, procedures and guidelines are designed to be consistent with the Code of Conduct and take into account applicable credit rating agency regulations.

Policies and procedures are created through a systematic process which involves several key stages; the interested parties to the proposed policy and procedure contribute their specific technical expertise to the drafting process to ensure that the key elements of the policy and or procedure have been included.

It is the responsibility of the Credit Rating Policy Committee (“CRPC”) to manage the drafting of the policy and or procedure, and to publish the resultant draft within the Group to allow employees the opportunity to comment.

All policies and procedures are subject to regular review. This review process is managed by the CRPC. The CRPC reports on its activities and findings to the Executive Vice President and Chief Operating Officer and submits regular reports to the Directors of each of the individual legal entities within the Group.

Control Functions

The control of the rating process is achieved through established processes that take account of the local and Group aspects of the business model.

At the local level, AMBAP has in place a system of control through supervisors in the local analytical team. This process of supervision is supported by the reporting lines that extend back to the Senior Rating Analysts within the Group Head Office and into AMBAP Executive Management.

Global Management of Rating Function

The philosophy of the Group is that credit ratings should, at all times, be free from conflicts of interest, be consistent and not be subject to geographical variations. In this way both the rated entities and the users of the ratings can refer to a common scale and make direct comparisons across any particular ratings band. AMBAP is a separate legal entity based in Hong Kong and subject to regional credit rating agency legislation and regulation. However, as part of the A.M. Best Group, it shares common values, methodologies and processes.

The Code of Conduct and the supporting policies and procedures ensure that there is a separation between the commercial and analytical functions that constitute the overall credit rating agency business. This separation of duties is actively managed, and it is the responsibility of the Chief Executive Officer of AMBAP to ensure that this is observed on a day to day basis. The Compliance Officer provides advice and support in making sure that all employees recognise the need for vigilance at all times. The Board of Directors is advised of issues in this regard through regular Board reports.

The day-to-day management of the analytical team is the responsibility of the Managing Director, Analytics. To maintain the integrity of the ratings process, whilst the Managing Director of the Analytical function of AMBAP reports to the Chief Executive Officer of AMBAP, he also has an analytical line of reporting through to the Global Ratings Division, and into the Chief Rating Officer.

Board of Directors

The AMBAP Board is chaired by an Executive Board Director of A.M. Best Rating Services Inc. All five of the Directors of AMBAP have a combination of extensive experience in the insurance industry, supplemented with credit rating specific experience gained within the Group.

The Directors are:

- Chairman, Larry Mayewski
- CEO, Roger Sellek
- Suzanne Pool
- Bernard Peacock
- Jose Ribeiro

Cross Jurisdictional Management Support Functions

To achieve the goal of consistency, the Group looks to use centralised functions wherever it is most appropriate to do so. The relatively small size of the operation in Hong Kong means the business is focused on delivering ratings. The function responsible for the production of methodologies and models is centralised in the A.M. Best Group Head Office.

Credit Rating Policy Committee

The CRPC is responsible for overseeing the establishment, maintenance and appropriateness of the Group's global credit rating criteria and methodology (known as Best's Credit Rating Methodology or BCRM), as well as policies and procedures pertaining to the production of Credit Ratings and other related opinions. CRPC serves as the Group's independent internal review function globally for the review and update of BCRM, including any new criteria/model development, as well as policy and procedure maintenance, and development as required by law or implemented for internal business purposes. CRPC is independent of the business lines that are responsible for the determination of credit ratings and the sales/marketing activities. However, members of the CRPC possess appropriate expertise in the credit rating process and/or related disciplines so as to provide sufficient knowledge to execute the duties of the committee.

While the Group operates in multiple jurisdictions that follow separate regulatory regimes, our basic approach in developing credit rating criteria and policy is to establish, where possible, consistent global methods, tools and business rules that can be consistently applied to all organizations we rate. Group senior management strongly believes that a consistent global approach is paramount to the integrity of the credit rating process, and is consistent with the underlying regulatory principles of transparency and objectivity.

The CRPC is responsible for ensuring that credit rating criteria and policy are developed, elaborated and reviewed so that they take into account all relevant information available and are updated as necessary, and reviewed regularly by employees who possess the relevant industry knowledge, quantitative and qualitative skills, and experience. The regular review of criteria and policy considers various factors, including but not limited to:

- the presence of relevant new data, including changes in CRA regulation, that were not considered in the development of the existing criteria or policy;
- changes in any underlying assumptions (if any) built into the criteria or policy;
- the impact of any market events and macroeconomic trends; and
- insights and/or comments stemming from rating surveillance or monitoring of rated entities and/or financial instruments.

While the CRPC is solely responsible for the development of all credit rating criteria and policy, the CRPC meets regularly with members of senior rating division management to coordinate the criteria and policy development and review process, and to discuss the implementation of criteria and policy changes, including the need for training and other forms of analytical guidance. This regular

interaction allows for feedback from the analytical teams to be considered, as appropriate, throughout the process. Topics typically addressed include, but are not limited to:

- issues arising from the ongoing monitoring and surveillance of ratings that may impact the development and review of criteria and policy, or highlight an opportunity to provide additional guidance and/or training;
- assessing the impact on our existing criteria and analytical processes of changes in regulatory requirements;
- findings and other feedback from the criteria and policy review process;
- assessing the likely scope of credit ratings affected by changes in criteria and methodology; and
- setting and monitoring priorities and resource requirements based on the various CRPC initiatives underway.

Compliance

The Compliance function is responsible for assessing the Group's compliance with the Code of Conduct, and policies and procedures on a global basis. The Compliance Officers are responsible for identifying potential and actual conflicts of interest, and assisting the Group in managing and, where possible, eliminating these conflicts.

The Chief Compliance Officer operates from the Group's Head Office in Oldwick, New Jersey, U.S.A. Compliance for the Asia-Pacific region is handled by the AMBAP Compliance Officer, who provides regular reports to the senior management and the Board of AMBAP on compliance activities, issues and findings. The AMBAP Compliance Officer is based in the Group's Singapore office, is independent of business management, and provides regular reports to the AMBAP Board. The AMBAP Compliance Officer, with the support of the broader Compliance function, is responsible for providing guidance and advice (including relevant compliance training) on the interpretation of regulatory policy to all employees of the AMBAP entity.

The Group has a global whistle-blowing policy in place and it is the responsibility of the Compliance Department to investigate any issues raised through this channel.

Compliance Internal Testing – Rating Division

The Group's Compliance Internal Testing – Rating Division is designed to examine the analysts and managers' compliance with the record keeping requirements established within the Group's credit rating policies and procedures.

Annually, an Internal Testing of Rating Division Compliance is performed by the Group Compliance team in New Jersey, USA. This testing encompasses rating activities from all A.M. Best offices. The corporate annual testing is supplemented by interim examinations covering specific time periods or activities. In addition, the local Compliance function performs further tests to provide additional assurance regarding compliance with local regulations. When completed, the test results are shared with senior management in a report with recommendations and in the Board reports. Management's response and action plans to the test results and recommendations are recorded in the final report.

For the year 2016, the Internal Testing of Rating Division Compliance reviewed various aspects of the rating process (i.e. handling of confidential information, monitoring of credit ratings, dissemination, file maintenance, document storage, retention) to ensure consistent rating treatment and compliance with A.M. Best policies and procedures.

In addition to the annual testing, periodic abridged tests of operational compliance as well as reviews that specifically address the SFC regulatory requirements are conducted. These ad-hoc examinations typically target a particular control process, or examine a random population of credit rating activity for a specified period of time.

The Risk Assessment Committee

The Group has established a Risk Assessment Committee (“RAC”) to continuously review the risks faced by the Company as they relate to its activities as a CRA. The RAC is comprised of members representing the CRPC team, the Compliance function and senior management from the Ratings Division. The broad responsibilities of the RAC are to:

- identify and assess the regulatory, reputational, legal and business risks relative to the Group’s activities as a CRA;
- identify the owners of each risk;
- assess the adequacy of the controls, policies and procedures in place to mitigate the risks;
- assess the adequacy of the controls in the light of evolving regulatory requirements; and
- where deficiencies are noted and enhancements are required, work with the owner of the risk to make sure the process is improved.



Record Keeping Policy

The Group has in place global record keeping policies which have been designed to ensure that the Group maintains adequate record keeping requirements which meet not only the Hong Kong regulations with respect to record keeping, but also the global regulatory standards that are applicable in all the jurisdictions where the A.M. Best Group provides credit rating services.

Credit Rating Division Record Keeping - Exhibit 3 (CRPC Policy 3)

Financial Record Keeping - Exhibit 7 (C-30)

Compliance Record Keeping – Exhibit 7 (C-32)

The Record Keeping Policies can be viewed here:

http://www.ambest.com/nrsro/FormNRSRO_Annual_Certification_March_Exhibit1-9.pdf

Analyst Rotation

The Group's procedure for Analyst Rotation was developed to be consistent with applicable regulations in the jurisdictions in which the Group operates. The Analyst Rotation Procedure applies where local regulations require or where the scale of operations within A.M. Best and its subsidiaries can support the rotation of analysts without having a detrimental effect on the quality of service and expertise provided to the rated entities. In the smaller subsidiary offices such as AMBAP and AMBAPS where there are a limited number of analysts and, in some instances, specific language requirements, such a rotation procedure is not applied; however, management does work toward the spirit and intentions of this rotation procedure. For example, while the rotation requirements of the Group's procedures do not directly apply to AMBAP owing to the size and scope of its operation, our rating committee structure and quorum requirements provide for a broad-based review and challenge of the credit rating recommendations of the primary analytical teams in AMBAP.

The End