

# A.M. Best (EU) Rating Services B.V.

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## European Union Transparency Report – March 2020



This report is provided in accordance with Article 12 of Regulation (EC) 1060/2009 as amended by Regulation (EU) 513/2011 and Regulation (EU) 462/2013, Annex 1 Section E. The report covers the 12 month period from the 1<sup>st</sup> January 2019 to the 31<sup>st</sup> December 2019.



## Contents

1.	Introduction .....	3
2.	Legal Structure & Ownership .....	5
2.1	Legal Structure .....	5
2.2	Board of Directors .....	5
3.	Description of Internal Control Mechanisms .....	6
3.1	Ownership and Management Structure .....	6
3.2	Code of Conduct and Policies and Procedures .....	6
3.3	The Credit Rating Process .....	7
3.4	The Management of Conflicts of Interest .....	8
3.5	Performance of Credit Ratings .....	9
3.6	Endorsement Assurance Mechanisms: .....	9
3.7	Internal Control Functions and Frameworks .....	10
	Cross Jurisdictional Management Support Functions .....	10
	Credit Rating Policy Committee .....	11
	Risk Management Advisory Committee (RMACo) .....	11
	AMB-EU Audit and Risk Management Committee (ARMCO) .....	11
	Methodology Advisory Committee (MAC) .....	11
	Compliance .....	12
4.	Statistics regarding Staff Allocation .....	13
5.	Record Keeping Policy .....	14
6.	Review of the Compliance Function .....	15
7.	Description of the Management and Analyst Rotation Policy .....	16
7.1	Management .....	16
7.2	Rotation Policy .....	16
8.	Financial Information .....	18
	Revenue of AMB-EU .....	18
9.	Corporate Governance Statement .....	19
	Corporate Code of Conduct .....	19
	Share Ownership .....	19

## 1. Introduction

AM 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.

AM Best remains a privately owned company and as at the date of this report has credit rating operations based in Oldwick (New Jersey), London, Amsterdam, Hong Kong, Singapore and Mexico City.

As at the date of this report, AM Best currently has regulatory registrations in:

- The USA (A.M. Best Rating Services, Inc. – “AMBRs”)
- Brazil (AMBRs)
- The European Union (A.M. Best Europe - Rating Services Limited – “AMBERS” and A.M. Best (EU) Rating Services B.V. - “AMB-EU”)
- Dubai (AMBERS) - Representative Office only
- Sultanate of Oman (AMBERS)
- Switzerland (AMBRs)
- 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”)

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

A.M. Best (EU) Rating Services B.V. (AMB-EU) formally became registered with, and supervised by, the European Securities and Markets Authority (ESMA) as a Credit Rating Agency under the applicable European legislation with effect from 3 December 2018. As at the date of this report, A.M. Best’s London-based subsidiary, A.M. Best Europe – Rating Services Limited (AMBERS) is also subject to ESMA supervision. In accordance with the terms of the Withdrawal Agreement agreed between the United Kingdom and the European Union, ESMA will continue to directly supervise UK based Credit Rating Agencies (including AMBERS) during the transition period that runs until 31 December 2020. The UK Financial Conduct Authority (FCA) have indicated that, in accordance with The Credit Rating Agencies (Amendment, etc.) (EU Exit) Regulations 2019, they intend to process the conversion of AMBERS EU registration so as to enable AMBERS to continue its operations in the United Kingdom from 1 January 2021.

The credit ratings issued by AM Best are independent opinions regarding the creditworthiness of an obligor, issuer, or security issued by entities rated by AM Best; 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, AM 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 opinions, rather than a backwards verification of facts. AM 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.

AMB-EU assigns three 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** – These are an independent opinion of the ability of an issuer or entity to meet its ongoing financial obligations and can be issued on either a long or short-term basis. This rating is assigned to insurance companies and their related holding companies as well as other legal entities authorised to issue financial obligations.
- **Issue Credit Ratings** – These are an independent opinion of an issuer’s ability to meet its ongoing financial obligations to security holders when due. This type of rating is assigned to the securities issued by entities rated by AM Best.

Pursuant to EU Regulation governing the activities of Credit Rating Agencies operating in the EU, a CRA established and registered in the EU may “endorse” ratings from non-EU CRAs that are part of the same Group and where the third-country CRA fulfils requirements that are at least “as stringent as” requirements in the EU CRA Regulation. Further to the Withdrawal Agreement agreed between the United Kingdom and the European Union, ESMA will continue to directly supervise UK Credit Rating Agencies (including AMBERS) until 31 December 2020. As such, AMBERS will continue to be the vehicle to endorse ratings into the EU until 31 December 2020 and so AMB-EU does not intend to endorse credit ratings in 2020.

**Our 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.**

### **Contact Information:**

Any comments or questions regarding this Report should be directed to:

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## **2. Legal Structure & Ownership**

### **2.1 Legal Structure**

A.M. Best (EU) Rating Services B.V. (AMB-EU) is a wholly owned subsidiary of A.M. Best Rating Services, Inc. (AMBRIS). AMBRIS is, in turn, a subsidiary of A.M. Best Company, Inc.

A.M. Best Company, Inc. is a privately owned company based in New Jersey, USA and, as such, the shares of A.M. Best Company, Inc. are not admitted for trading on a regulated market.

AMB-EU is incorporated in accordance with the laws of The Netherlands.

### **2.2 Board of Directors**

As at the date of this report, the Directors of AMB-EU are:

- Mr Mathew Mosher (CEO)
- Mr James Gillard (Executive Director)
- Mr Nick Charteris-Black (Executive Director)
- Mrs Suzanne Pool (Executive Director)
- Mr Christopher Hopton (Independent Non-Executive Director)
- Mr John Bromfield (Independent Non-Executive Director)

The Board of Directors currently meets on an approximately quarterly basis, although ad hoc meetings are scheduled as required.

A series of Senior Management changes took place during 2019. These were announced via a press release (below) on the 19<sup>th</sup> of February 2019 and the 20<sup>th</sup> of June 2019:

<http://news.ambest.com/PressContent.aspx?altsrc=14&refnum=27648>

<http://news.ambest.com/PressContent.aspx?altsrc=14&refnum=28120>

The changes to AMB-EU Board consisted of Dr. Roger Sellek stepping down as CEO and Mr. Larry Mayewski retiring from AM Best with effect from 31 December 2019. Subsequently, Mr. Matthew Mosher joined the Board and was appointed as AMB-EU CEO, effective 1 July 2019, and Mr. James Gillard joined the Board as a new Director with effect from 1 January 2020.

### 3. Description of Internal Control Mechanisms

AM Best strives to ensure that credit ratings are free from conflicts of interest, are consistent and are not subject to geographical variations. AMB-EU is a separate legal entity based in the Netherlands and subject to European credit rating agency legislation and regulation. However, as part of AM Best, it shares common methodologies and processes.

At a high level, AMB-EU's internal control mechanisms ensure the quality of its credit rating activities and can be grouped into seven broad headings:

- Ownership and Management Structure
- Code of Conduct and Policies and Procedures
- The Credit Rating Process
- The Management of Conflicts of Interest
- Performance of Credit Ratings
- Endorsement Assurance Mechanisms
- Internal Control Functions and Frameworks.

#### 3.1 Ownership and Management Structure

All of the Directors of AMB-EU have extensive experience in the insurance industry supplemented in most instances with credit rating specific experience gained within the AM Best Group.

#### 3.2 Code of Conduct and Policies and Procedures

AMB-EU adheres to the AMBRS' Code of Conduct which is based on the IOSCO Code of Conduct. The AMBRS' Code sets out the principles under which all AMB-EU Directors (Including Independent Non-Executive Directors), Senior Managers and Employees are expected to operate. The Code is regularly reviewed to take account of changes in legislation on a global basis.

The AMBRS' Code of Conduct is viewed as the high level standards and principles against which the company operates. AM Best also has a range of other policies and procedures which provide detailed interpretations of the laws, rules and regulations which govern the ways in which the business operates.

A summary of the policies and procedures used to determine credit ratings can be found at exhibit 2 within the attached link:

[http://www.ambest.com/nrsro/FormNRSRO\\_Exhibit1-9.pdf](http://www.ambest.com/nrsro/FormNRSRO_Exhibit1-9.pdf)

The above document provides an overview of the critical quality control role played by Rating Committees and outlines the high level processes for reviewing methodologies and maintaining ongoing surveillance of published ratings. Within the EU all ratings are subject to review on at least an annual basis.

The rating process is regulated by the CRPC Policy Framework, which consists of a set of Global Policies and Procedures that seek to ensure that the process is rigorous, properly documented, systematically and consistently applied, and subject to regular review and validation. In August 2019, the CRPC Policy Framework was updated in order to make the structure more logical and accessible to employees and remove areas of duplication. However, no material changes were made to the rating process.



More detailed information on rating methodology/criteria for the types of ratings issued by A.M. Best is available on our website at:

<http://www.ambest.com/ratings/methodology.asp>

Employees are provided with training and testing on compliance and ratings policies including the management of conflicts of interest. All policies are made available to employees through AM Best's intranet pages and training is provided regarding new or amended requirements.

In addition, analysts are provided with training and are tested on AM Best's credit rating methodology used in the credit rating process.

With the exception of the changes identified in this report, there were no other material changes to the systems and procedures during 2019 that require disclosure under point 6 of Section E.I of Annex I of Regulation (EC) No 1060/2009.

### 3.3 The Credit Rating Process

The foundation of the interactive credit rating process is an ongoing dialogue with the rated company's management, which is facilitated by AM Best's credit analysts. Each interactively rated entity is assigned to a lead analyst who is supervised by a team leader. The lead analyst is charged with managing the ongoing relationship with company management and performing the fundamental credit analysis prescribed in AMB-EU's rating criteria. It is the lead analyst's responsibility to monitor the financial and non-financial results and significant developments for each rated entity in their portfolio. A rating evaluation can be considered whenever AM Best becomes aware of a significant development, regardless of the annual review cycle.

This ongoing monitoring and dialogue with management occurs through formal annual rating meetings, as well as interim discussions on key trends and emerging issues as needed. Management meetings afford analysts the opportunity to review with the company factors that may affect its rating, including strategic goals, financial objectives and management practices. It is during these interactive meetings that a company typically will share information that may be extremely sensitive or proprietary in nature.

The dialogue with management continues throughout the rating process which is described in more detail below.

**1. Compile Information.** The rating assessment begins with the compilation of detailed public and proprietary financial information, including audited annual and quarterly financial statements, regulatory filings, certified actuarial and loss-reserve reports, investment details and guidelines, reinsurance transactions, annual business plans and Best's Supplemental Rating Questionnaire. The primary credit analyst uses this information to develop a tailored meeting agenda for the annual rating meeting. The annual meeting is a key source of quantitative and qualitative information.

**2. Perform Analysis.** AM Best's analytical process incorporates a host of quantitative and qualitative measures that evaluate various sources of risk to an organisation's financial health, including underwriting, credit, interest rate, country and market risks, as well as economic and regulatory factors. The analysis includes comparisons with peers, industry standards and proprietary benchmarks, as well as assessments of operating plans, philosophy, management, risk appetite, and the implicit or explicit support of a parent or affiliate.

**3. Determine Best's Credit Rating.** An initial rating recommendation is developed based on the analytical process outlined above. Each rating recommendation is reviewed and

modified, as appropriate, through a rigorous committee process that involves analysts and senior rating officers who possess relevant expertise. This committee approach ensures consistency of ratings across different business segments and maintains the integrity of the rating process and methodology. The final rating outcome is determined by one or more rating committees after a robust discussion of the pertinent rating issues and financial data.

Before public dissemination, the rating outcome as well as the principal grounds on which the rating is based is communicated to the company to which it is being assigned. If the company disagrees with the rating and believes that the information on which it was based was incomplete or misunderstood, then the rating can be appealed. If material new information is forthcoming in a timely manner, then the rating committee may reconsider the rating.

**4. Disseminate Best's Credit Rating.** AM Best's Credit Ratings are disseminated as soon as practicable once the rating process is finalised. The ratings are made available to the public via A.M. Best's website and through a number of different data providers and news vendors.

**5. Monitor Best's Credit Rating.** Once an interactive credit rating is published, AM Best monitors and updates the rating by regularly analysing the company's creditworthiness. Analysts continually monitor current developments (e.g. financial statements, public documents, news events) to evaluate the potential impact on a company's rating. Significant developments can result in an interim rating evaluation, as well as modification of the rating or outlook. The primary analyst will typically initiate an evaluation of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action.

### 3.4 The Management of Conflicts of Interest

AMB-EU operates an "issuer pays" business model in respect of the fees collected in return for the provision of a credit rating. The other recognised business model is termed "investor pays" which is where the general investors or users of the ratings pay a subscription to access company ratings. It is AM Best's belief that whilst both methods have an inherent potential conflict of interest risk, the issuer pays model is the better method for making sure that the maximum exposure is given to any specific rating.

AMB-EU has initiated a number of processes to manage potential conflicts of interest. These include:

- The adoption of the Code of Conduct based on the IOSCO principles. The code is regularly updated to keep it current and address evolving risks.
- The adoption of policies and procedures which address and manage conflicts of interest. Every quarter, employees affirm that they are aware of the details contained within the Code of Conduct and that they follow the policies and procedures, particularly with respect to gifts and entertainment, securities trading and ownership and other situations that could cause a real or potential conflict of interest.
- The business model operated by AMB-EU separates the commercial aspects of providing a rating from the analytical process. The Code of Conduct expressly prohibits analytical employees from any knowledge of the commercial terms between the company and a rated entity.
- The working environment of AMB-EU's analytical staff is physically separated from that of all other employees. There is no commercial staff operating from the Amsterdam office.



- AMB-EU only provides ratings services to its clients and does not operate any ancillary or other business which raises revenue from its clients.
- The rating process ensures that any potential conflicts of interest are declared at the outset of the ratings determination and analysts declare whether or not they have any potential conflicts of interest before joining any rating committee.
- The rating decision reached is that of a committee rather than the judgment of any single individual.
- When an analyst leaves the employment of AM Best to work for a rated entity a look-back review is conducted to make sure that the analyst did not exert any undue influence on the decision of the rating committee for that entity.
- The compensation for analysts does not contain any element for the retention or acquisition of business.

The Compliance Officer actively monitors the potential and actual conflicts of interest that may occur within the business and reports his findings to the AMB-EU Board.

### 3.5 Performance of Credit Ratings

With effect from the 1 of January 2019, AM Best updated the definition of financial impairment. The updated definition has been used in this section.

AM Best provides annual performance measurement statistics associated with Financial Strength Ratings, Issuer Credit Ratings, and Issue Credit Ratings. The performance measurement statistics are based on public and private ratings associated with individual US and non-US operating insurance companies. Consequently, AMB-EU believes the results are applicable to its rated population given the consistent global application of rating criteria. The applicable periods for the performance statistics are the most recent 1-year, 3-year and 10-year periods all ending on December 31 in the prior calendar year.

Performance measurement statistics are updated annually at the end of the first quarter and these are made available on AM Best's website. These performance measurement statistics display the following ratings transition data for the various rating types:

- a) 1-year ratings transition matrix and 1-year impairment/default rate for each rating level;
- b) 3-year ratings transition matrix and 3-year impairment/default rate for each rating level,
- c) 10-year ratings transition matrix and 10-year impairment/default rate for each rating level.

The most recently available performance measurement statistics can be found at:

[http://www.ambest.com/nrsro/FormNRSRO\\_Exhibit1-9.pdf](http://www.ambest.com/nrsro/FormNRSRO_Exhibit1-9.pdf)

AM Best, along with credit markets in general, deems a non-insurer issuer default as having occurred when an issuer misses interest or principal payments on its obligations, restructures its debt in a way that is deleterious to investors, or files for bankruptcy.

For the purposes of presenting credit ratings performance measurement statistics consisting of credit rating transition and default rates "Form NRSRO: Exhibit 1 Rating Performance Measurement Statistics" (Exhibit 1), A.M. Best classifies an entity as in default if the entity was assigned any of the following non-rating designation symbols: ("d"); ("e" or "E"); or ("f" or "F").

For the purpose of tabulating impairment rates for insurers, AM Best designates an insurer as a Financially Impaired Company (FIC) upon the public placement of a company, via public

court order or other international equivalent, into conservation, rehabilitation and/or insolvent liquidation. Supervisory actions undertaken by Insurance Department regulators without court order are not considered impairments for purposes of compiling Exhibit 1 statistics unless clear direction is given by the regulator to delay or limit policy or contract payments.

There are a number of regulatory oversight actions that may be taken with respect to troubled insurers in which court orders are not sought, such as required company action plans, various forms and levels of supervision, and licensure actions. Companies may be subject to these insurance department orders and actions on multiple occasions, particularly in certain jurisdictions, and while these regulatory actions suggest concern and impose constraints, they are not necessarily indicative of an insurer's inability to meet its ongoing policy and contract obligations.

Additionally, companies that enter voluntary dissolution and are not under financial duress at that time are not counted as financially impaired.

### **3.6 Endorsement Assurance Mechanisms:**

As mentioned above, AM Best operates using a single global policy framework. However, further to the publication of ESMA's revised endorsement guidelines in July 2018, a gap analysis exercise was undertaken to identify where the requirements of the EU Credit Rating Agency Regulation were different from AM Best's policies and procedures. As a result, some policies and procedures were updated to ensure that when ratings start to be endorsed by AMB-EU into the EU these are issued in line with standards that either directly reflect the requirements of the CRAR regulation or are "as stringent as" such requirements.

Additionally, AMB-EU has developed an Endorsement Procedure that captures ongoing assurance mechanisms aiming at ensuring that once this entity starts endorsing ratings they comply with the required standards. This is planned to be delivered through three key steps:

- Verification that the Policies and Procedures employed by the third country CRA meet appropriate standards;
- Analysis of a range of Management Information to enable the AMB-EU Compliance Officer to monitor compliance on an ongoing basis; and
- Specific Assurance testing by both the AMBRS and AMB-EU Compliance function.

On an annual basis, the AMB-EU Compliance Officer will produce a report for the AMB-EU Board that provides an overview of the activity performed to demonstrate compliance with ESMA's endorsement guidelines. As mentioned earlier in this report, further to the Withdrawal Agreement between the United Kingdom and the European Union, AMBERS will continue to be the vehicle to endorse ratings into the EU up until 31 December 2020 and consequently AMB-EU does not intend to endorse ratings during 2020.

### **3.7 Internal Control Functions and Frameworks**

#### **Cross Jurisdictional Management Support Functions**

In the interests of consistency AM Best looks to utilise centralised functions wherever it is most appropriate to do so. The function responsible for the production of methodologies and models is centralised in AM Best's Head Office in Oldwick, New Jersey.

## Credit Rating Policy Committee

The Credit Rating Policy Committee (CRPC) is the global function responsible for overseeing the establishment, maintenance, appropriateness and documentation of A.M. Best's global credit rating criteria, models and methodology. CRPC serves as A.M. Best's independent internal review function globally. The committee is independent of the business lines that are responsible for the determination of credit ratings, sales/marketing activities and compliance. Members of the CRPC possess appropriate expertise in the credit rating process (and/or related disciplines) as to be able to provide sufficient knowledge to execute their duties. Under the terms of reference of the CRPC, the credit rating criteria, models and methodologies are subject to a continuous assessment and review process. This ongoing global review provides the appropriate degree of rigour which is paramount to the integrity of the credit rating process and allows the models and methodologies to be used with a high degree of confidence. The models and methodologies used in the sector have been developed and refined over a long period of time which gives the market confidence in the reliability of the overall rating process.

## Risk Management Advisory Committee (RMAcO)

The RMAcO is a global oversight body charged with monitoring risks relative to AM Best's CRA activities and the related development and evaluation of control systems and other mechanisms to mitigate AM Best's exposure to these risks. The committee is comprised of INEDs from all AM Best offices, allowing that all subsidiary boards are aware of and participate in the discussion of global risks.

The purpose of the Risk Management Advisory Committee ("RMAcO") is to assist AMBRS and its subsidiaries in the oversight of:

- a) Compliance with global legal and regulatory requirements;
- b) The adequacy of the internal control framework within RMAcO's authority and responsibility;
- c) The adequacy of risk management systems including current risk exposures and risk strategy; and
- d) The embedding and maintenance of a supportive culture in relation to the management of risk.

## AMB-EU Audit and Risk Management Committee (ARMCO)

In accordance with the AMB-EU Governance Manual, the Board has oversight of the financial statements, the qualifications and performance of the audit function, the compliance with legal and regulatory requirements, and the embedding and maintenance of a supportive culture in relation to the management of risk. Previously, ARMCO reviewed the reports and other output from Risk Management, Finance, External and Internal Auditors and Compliance, and provided to the AMB-EU Board a consolidated view of risk and control related topics so as to inform strategic decision making.

With effect from 1 January 2020, AMB-EU Board decided to consolidate the Audit and Risk Management Committee into the Board agenda in order to promote Board effectiveness. Consequently, the ARMCO ceased to operate as a Board Subcommittee on the above date.

## Methodology Advisory Committee (MAC)

The Methodology Advisory Committee is the global forum which reviews and provides independent oversight of the establishment, maintenance and appropriateness of the

Company's global credit rating methodology, procedures and models. The AM Best Rating Services (AMBRS) Board, is the approving authority for global credit rating methodology, procedures and models, and as such, takes into account comments from MAC. This Committee also provides independent oversight to the work of the Credit Rating Policy Committee (CRPC). The membership of MAC includes the two AMB-EU's INEDS.

## Compliance

The Compliance Officer for AMB-EU operates independently of business management and provides regular reports to the AMB-EU Board in order to apprise the Directors of the efficacy of compliance arrangements in accordance with the Annual Compliance Plan. This includes, but is not limited to, providing updates on:

- Compliance monitoring activity;
- Any identified compliance issues;
- Any regulatory interactions in the reporting period;
- Changes to policies and procedures; and
- Progress being made to deliver the Annual Compliance Plan.

#### 4. Statistics regarding Staff Allocation

The table below lists the number of Full-Time staff employed by AMB-EU as at 31<sup>st</sup> December 2019.

Staff Type	Number
Rating Analysts	8
Credit Rating Support Staff	1
Other Support Staff (e.g. IT)	2
Senior Management <sup>1</sup> (CEO, Senior Director Analytics, and Compliance Officer)	2
<b>Total</b>	<b>13</b>

As outlined earlier in this report, methodology and model appraisal is undertaken by AM Best's Credit Rating Policy Committee based in AM Best's US Head Office.<sup>1</sup>

All AMB-EU analysts are involved in both new and existing ratings and are solely allocated to corporate ratings (and associated securities) of insurance companies. AMB-EU does not issue either structured finance or sovereign ratings.

Apart from the changes included in this report, there were no material changes to resources during 2019 that require disclosure under point 6 of Section E.I of Annex I of Regulation (EC) No 1060/2009.

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<sup>1</sup> Excludes the AMB-EU CEO who is a Director of AMB-EU but is employed by an affiliate AM Best Rating Services Company.

## 5. Record Keeping Policy

The record keeping requirements for AMB-EU are governed by AM Best's globally applicable record keeping and retention policy. The purpose of having a centrally administered policy is to allow AM Best to present a single standard which is understood by all employees.

The policy classifies documents according to whether the documents themselves are central to the procedures and determinations of rating decisions refer to the commercial relationships with our clients, or are documents that AM Best keeps to satisfy its legal and regulatory obligations.

Details of A.M. Best's Credit Rating Division record keeping policy and procedures can be found at:

[http://www.ambest.com/nrsro/FormNRSRO\\_Exhibit1-9.pdf](http://www.ambest.com/nrsro/FormNRSRO_Exhibit1-9.pdf)



## 6. Review of the Compliance Function

The AMB-EU Board has conducted an internal review of its compliance function and has concluded that the company's compliance arrangements are operating effectively and with the appropriate degree of independence. In helping to form this opinion, the AMB-EU Board commissioned Mazars LLP to undertake a review of the AMB-EU compliance function.

Mazars' audit focused on the following areas:

- Independence of the Compliance function;
- Appropriateness of the Compliance functions resource, authority, and responsibilities;
- The establishment of adequate policies and procedures;
- The suitability of the monitoring carried out by the compliance function in order to assess the adequacy and effectiveness of its policies and procedures;
- Completion of compliance activities (including the depth in which these are performed and documented) in line with the CMP;
- The process for horizon scanning and capturing future changes in the regulatory landscape (in particular ESMA requirements);
- The provision of training programmes to assist staff in understanding their compliance related obligations and responsibilities; and
- Appropriateness of reporting to the Board on compliance matters.

This review did not identify any material weaknesses in processes or procedures.

## 7. Description of the Management and Analyst Rotation Policy

### 7.1 Management

AM Best ratings cover approximately 3,500 insurance companies globally throughout the Americas, Europe, Middle East and the Asia-Pacific region, with offices in the U.S., London, Amsterdam, Hong Kong, Dubai, Mexico City and Singapore.

AMB-EU's Chief Executive Officer (CEO), Mr. Matthew Mosher, is also the CEO of AMBERS and A.M. Best's Asia-Pacific businesses. Mr. Mosher is responsible for leading the development and execution of the AMB-EU strategy and setting the appropriate "tone from the top" to help ensure AMB-EU operates effectively, consistently and in line with the expectations of key stakeholders including, but not limited to regulatory authorities and the users of ratings.

Reporting to Mr. Mosher, are a number of Senior Managers responsible for areas including Analytical Services and Compliance. Where appropriate, these reports have dotted reporting lines into equivalent Group personnel based in the UK and/ or US which enables potential issues / conflicts of interest to be escalated and mitigated.

### 7.2 Rotation Policy

AMB-EU has an exemption from regulatory requirements regarding the rotation of management and analysts by virtue of its current employee headcount.

With respect to ratings endorsed into the European Union (EU), the headcount of AMBAP, AMBAPS and AMBAL, per individual entity, is significantly lower than the 50 FTE threshold set in the CRAR. As such, those entities are exempt from the analytical rotation requirements, but still aspire to comply, where possible and practical, with the rotational benchmarks captured in the internal Rotation Procedure.

Further to guidelines published by ESMA in November 2017, AM Best made a number of changes to its rotation policy with effect from May 2018. The updated policy for AMBERS (UK) captures the following requirements:

- a) The lead Rating Analyst will have a maximum of four consecutive years' interaction with an assigned rating entity/ issuer or its related third parties at which time the rating will be reassigned;
- b) For AMBERS based employees, the four consecutive year time frame begins on January 1, 2016. Any time a lead Rating Analyst accumulated with an assigned entity prior to this date will not count toward the four consecutive years of interaction.

For AMBRS (US), the requirements below are outlined in the Rotation Policy:

- a) The lead Rating Analyst will have a maximum of six consecutive years' interaction with an assigned rated entity/issuer or its related third parties at which time the rating will be reassigned.
- b) The Reviewer will have a maximum of seven consecutive years' interaction with an assigned rated entity/issuer or its related third parties at which time the rating will be reassigned.

For both AMBERS and AMBRS, the required cooling off period for any employee who reaches the maximum interaction time frame is two consecutive years. It is the responsibility of the Analytical function to track and enforce compliance with the above requirements.

## 8. Financial Information

### Revenue of AMB-EU

In 2019, AMB-EU total turnover was €4,010,010. Turnover represents the total value of fees earned in the year, excluding value added tax. Revenue is earned by recognising fees throughout the period of service under the rating service agreement. Any billed fees unearned at the year-end are held in the balance sheet as deferred revenue. AMB EU did not generate any income from ancillary services and its revenue was 100% attributable to the provision of solicited credit rating services.

AMB-EU does not provide sovereign or structured finance ratings. As such all of its ratings revenue is attributable to corporate ratings related to the insurance sector.

AMB-EU provides ratings to organisations based within the European Union and also to organisations based within wider Europe. Based on the location of the entity billed, AMB EU' revenue can be assigned as follows:

European Union: 97%

Non - European Union: 3%

The following Company Groups accounted for more than 5% of AMB-EU annual revenue:

- Allianz SE
- Generali S.p.A
- Talanx AG
- Hannover Rück SE

## 9. Corporate Governance Statement

Regulation (EC) No 1060/2009 Annex I Section E Paragraph 8, requires Credit Rating Agencies to provide a governance statement within the Transparency Report in accordance with Article 46(a)(1) of Council Directive 78/660/EEC of 25 July 1978.<sup>2</sup> As a subsidiary of a privately owned company, AMB-EU is exempt from Article 46(a).

However, in the interests of transparency, AMB-EU makes the following disclosures:

### Corporate Code of Conduct

As a privately owned company, AMB-EU is not subject to any mandatory corporate governance code in the Netherlands. However, as outlined in section 3.2 of this report, AMB-EU adheres to the AMBRS Code of Conduct based on the IOSCO Code of Conduct. The Code sets out the principles under which all AMB-EU Directors (Including Independent Non-Executive Directors), Senior Managers and Employees are expected to operate. The Code is regularly reviewed to take account of changes in legislation on a global basis.

AM Best's Code of Conduct can be accessed via the following link:

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

In addition, AMB-EU has implemented a Governance Manual setting out the various roles and responsibilities within the company. The AMB-EU Board is committed to reviewing its governance processes and updating the Governance manual on at least an annual basis.

### Share Ownership

As described in Section 2.1 above, AMB-EU is a privately owned company with all of its shares held by A.M. Best Rating Services, Inc. (AMBRS). AMBRS is in turn 100% owned by A.M. Best Company, Inc. a privately owned company based in New Jersey, United States of America.

The AMB-EU Board consists of four executive directors and two Independent Non-Executive Directors (INEDs)

One of the Executive Directors is also the 'Nominated Director'. Under the Company's Memorandum and Articles of Association, the Nominated Director is appointed by the shareholder and carries additional voting powers in the Board process. Specifically, no Board resolution is valid unless the Nominated Director supports the Board's majority decision. Whilst the Nominated Director is unable to mandate a particular course of action without the backing of the Board as a whole, his voting rights do enable him to veto any proposal supported by the other members of the AMB-EU Board. To date, there has been no instance where the Nominated Director has exercised this right of veto.

Directors of the Company can be appointed by the shareholders or by the Board when casual vacancies arise. Executive Directors have no fixed term of office and there is no retirement and re-appointment by rotation. AMB-EU's INEDs are appointed for a fixed five year time period with no renewal.

Names of the current Board members are included within Section 2.2, above

END

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<sup>2</sup> Article 46a was subsequently introduced through Council Directive 2006/46/EC.