



Hong Kong Annual Public Disclosure Report

April 2020

Hong Kong Annual Public Disclosure Report

The Annual Public Disclosure Report is published in accordance with paragraphs 68 and 71 of the Code of Conduct for Persons Providing Credit Rating Services ("HK CRA Code"), as published by the Securities and Futures Commission pursuant to section 169 of the Securities and Futures Ordinance (Chapter 571). It provides information on the operations of Fitch (Hong Kong) Limited for the fiscal year ended 31 December 2019.

Table of Contents

1.	Code of Conduct and Ethics	3
2.	Internal Control Mechanisms Ensuring the Quality of Credit Rating Activities	4
3.	Record Keeping Policy.....	12
4.	Management and Rating Analyst Rotation Policy.....	13

1. Code of Conduct and Ethics

Fitch Ratings supports the high-level principles outlined by IOSCO in its Statement of Principles Regarding the Activities of Credit Rating Agencies, together with the more expansive IOSCO Code of Conduct Fundamentals for Credit Rating Agencies (“IOSCO Code”).

The Fitch Ratings Code of Conduct and Ethics applies to all of Fitch’s global credit rating agencies including Fitch (Hong Kong) Limited. All Fitch Ratings policies and procedures reflect Fitch Ratings’ Code of Conduct and Ethics, which is based upon the global best practices outlined in the IOSCO Code, and, with respect to any given jurisdiction in which Fitch Ratings conducts Credit Rating activities, are consistent with all laws, rules and regulations applicable to Fitch Ratings in such jurisdiction, including the HK CRA Code.

2. Internal Control Mechanisms Ensuring the Quality of Credit Rating Activities

(1) Introduction

This section describes Fitch Ratings, Inc.'s ("FRI") and Fitch Ratings Limited's ("FRL") internal controls related to the issuance of Credit Ratings (including any of FRI's and FRL's subsidiaries that issue Credit Ratings under the trade name of Fitch Ratings). The definition of Credit Ratings, along with other capitalised terms that may be used in this section and other material information pertaining to Credit Ratings, are set forth on Fitch Ratings' publicly available website at <https://www.fitchratings.com/products/rating-definitions>.

(2) Board Oversight

The Board of Directors of FRI (the "FRI Board") and FRL (the "FRL Board") (collectively, the "Boards"), act as the parent entities for all Fitch Ratings' companies undertaking credit rating activity. Each of the Boards performs its oversight activities on behalf of Fitch Ratings globally. In addition, where necessary pursuant to applicable local law, the local boards of directors of other Fitch Ratings credit rating subsidiaries may perform additional oversight activities.

Among other matters, the Boards are responsible for the oversight and management of FRI or FRL, as the case may be, in accordance with their fiduciary responsibilities and standards established by the laws of the jurisdictions in which FRI and FRL are organised. The Boards have delegated responsibility for the day-to-day running of FRI and FRL to a senior management team and with sufficient skill and experience to ensure the sound and prudent management of FRI and FRL.

The Boards oversee, among other matters:

- The process for the issuance of Credit Ratings;
- The publishing of new and materially amended criteria and methodologies pertaining to determining Credit Ratings;
- The implementation of certain new and materially amended policies;
- The program designed to manage conflicts of interest;
- The maintenance of internal controls related to determining Credit Ratings;
- The compensation and promotion processes; and
- The compliance and governance processes, including the effectiveness of the Criteria Review and Approval Group ("CRAG").

(3) Policy Framework

All Fitch Ratings policies and procedures reflect Fitch Ratings' Code of Conduct and Ethics, which is based upon the global best practices outlined in the IOSCO Code, and with respect to any given

jurisdiction in which Fitch Ratings conducts Credit Rating activities, are consistent with all laws, rules and regulations applicable to Fitch Ratings in such jurisdiction.

During the policy development or amendment stage, input is gathered from relevant constituents within Fitch Ratings including, where appropriate, the senior management of the Global Analytical Group, the Credit Policy Group (“CPG”), the Legal Department, Ratings Operations (including Regulatory Affairs, Policies and Procedures), the Business and Relationship Management Group (“BRM”), the Compliance Department (“Compliance”), and any others as may be appropriate. Once a new or amended policy is finalised, it is subject to review and approval in accordance with Fitch Ratings’ internal protocols. Certain of Fitch Ratings’ policies are also subject to review by the Boards.

(4) Three Lines of Defence

Fitch Ratings’ internal control structure is designed to ensure that Fitch Ratings employees comply with Fitch Ratings’ policies and procedures relating to or associated with the issuance of Credit Ratings. This control structure consists of three lines of defence, and is ultimately overseen by the Boards:

- First Line of Defence: the Global Analytical Group, BRM and Ratings Operations (see below in 5);
- Second Line of Defence: CPG, CRAG, the Compliance Department, and Technology and Information Risk (see below in 6); and
- Third Line of Defence: Internal Audit (“IA”) (see below in 7) and external or outsourced third-party audits, as needed.

Each of the three lines of defence is further supported by the Information Technology group (“IT”) (see below in 8).

(5) First Line of Defence

The overall responsibility to ensure that Fitch Ratings’ policies and procedures relating to or associated with the issuance of Credit Ratings are followed rests with the senior managers and all members of the first line of defence.

a. Global Analytical Group

The senior managers of the Global Analytical Group are: (i) the Senior Global Group Heads; (ii) the Global Group Heads, each covering the analytical groups; and (iii) the Regional Group Heads covering certain geographical areas. The Senior Global Rating Group Heads report to the Global Analytical Head.

b. Business and Relationship Management

Fitch Ratings maintains a separate BRM Group which carries out ratings-related commercial and marketing activities independently of the Global Analytical Group. This separation helps ensure that analytical staff are not influenced by business considerations. All discussions with an issuer, originator, arranger, sponsor, servicer or any other party that interacts with Fitch Ratings on behalf of the issuer concerning rating fees, fee arrangements or billings are handled by BRM, finance and accounting staff, members of the Legal Department or others outside the Global Analytical Group, who are employed by Fitch Ratings to handle billing or fee collection matters. BRM staff also follows policies and procedures designed to ensure compliance with credit rating agency regulation, as well as anti-money laundering laws, international sanctions and anti-bribery and corruption laws.

c. Ratings Operations

Ratings Operations is responsible for developing, implementing and monitoring procedures and controls with respect to the Credit Rating process in response to regulation, Fitch Ratings policy and senior management guidance. Ratings Operations works with members of the Global Analytical Group, BRM, Compliance, CPG, Human Resources, Legal and IT to identify risks and implement procedural, training and/or technical solutions in support of Fitch Ratings' control framework and analysts' compliance with the firm's policies and procedures. Ratings Operations also produces management reports and analysis to support the Global Analytical Group's compliance with the various procedures outlined in the Rating Process Manual.

(6) Second Line of Defence

Fitch Ratings' core control functions of CPG, CRAG, Compliance, and Technology and Information Risk comprise the second line of defence. These functions operate at a global, rather than local level, with staff based primarily in Fitch Ratings' New York, Chicago, London, Hong Kong and Singapore and certain EU offices providing support and oversight to all Fitch Ratings offices globally.

a. Credit Policy Group

CPG is independent of the Global Analytical Group. CPG is led by the Chief Credit Officer and comprises Group Credit Officers, Regional Credit Officers, (collectively, credit officers), an Evaluating Committee Robustness function and 'Fitch Wire' (which provides intra-day commentary on topical credit issues). The Chief Credit Officer reports to the Chief Risk Officer of Fitch Group ("CRO"). Credit officers leverage participation in various committees and discussions to ensure new or developing issues are shared and addressed across analytical groups. CPG therefore operates in an oversight function with respect to Fitch Ratings' analytical work.

In fulfilling these responsibilities, CPG conducts the following activities, among others:

- Aggregates risks across ratings by focusing on risk identification and coordination across sectors and regions;
- Conducts reviews for assessing ratings performance and ratings comparability;
- Links rating trends with current fundamentals, macro-economic developments and analytically defined expectations by industry or sector;
- Monitors that analytical groups are addressing new developments with an appropriate sense of urgency and rigor, and reports on and makes recommendations in certain cases;
- Develops and nominates areas of topical research that can be used to frame credit priorities or identify the next material credit market development;
- Reviews and reports analytical exceptions, incidents and complaints; and
- Carries out reviews of committee papers as part of the Evaluating Committee Robustness program.

b. Criteria Review and Approval Group

CRAG is independent of the Global Analytical Group, is led by the Chief Criteria Officer, Head of Model Validation, Manager of Ratings Performance Analytics and criteria officers. The Chief Criteria Officer reports to the CRO. CRAG oversees Fitch Ratings' ratings criteria and related models.

In fulfilling these responsibilities, CRAG conducts the following activities, among others:

- Oversees the rating criteria (and related models and key assumptions) review and approval process;
- Conducts regular transition and default studies to monitor the performance of Fitch Ratings' ratings over time and across analytical sectors and geographical regions;
- Utilises a database of criteria and models to measure compliance with the requirements to review such criteria and models;
- Reviews criteria back-testing and model validation; and
- Maintains a log of analytical errors.

In addition to oversight activities, CPG and CRAG contribute to the development of the 'Fitch Credit Academy' which is a training program providing a formal structure to develop and assess the knowledge and skills analysts need to be effective in evaluating credit.

c. Compliance Department

Compliance is responsible for advising on, supporting and overseeing compliance with various laws, rules and regulations governing the issuance of Credit Ratings ("CRA Regulation")

applicable in the jurisdictions in which Fitch Ratings operates, along with further provisions set forth in Fitch Rating's Code of Conduct and Ethics and related policies regarding complaints, conflicts of interest and confidentiality (collectively, "Conduct Policies").

Compliance supports Fitch Ratings' compliance with CRA Regulation and the Conduct Policies on an on-going basis through the functions described below, as well as by analysing information obtained via Fitch Ratings' Ethics Hotline and internal incident reporting systems.

Compliance is headed by the Global Chief Compliance Officer (the "CCO"), who reports jointly into the CRO, and the Independent Directors of the Boards (the "Independent Directors"). In addition to its New York and London-based staff, Compliance has local compliance officers based in Fitch Ratings' offices in Chicago Brazil, Chile, Colombia, Germany, Hong Kong, Japan, Mexico, Russia, Singapore and Spain. The CCO periodically reports to the Independent Directors and the CRO on the work of the Compliance Department, the compliance workplan, and certain other compliance processes and controls including those undertaken by the Department's four core teams, which are as follows:

- (i) **Regulatory Compliance:** Regulatory Compliance is responsible for maintaining Fitch Ratings' licence or registration in all jurisdictions where Fitch Ratings is licensed or registered as a credit rating agency. This includes making regular (e.g. monthly, annual, etc.) reporting and filings; adhoc reporting; and, any issue or event-driven public or regulatory disclosures. This team manages all regulatory exams and other requests by regulatory authorities or agencies for documents and information. Further, the team tracks and monitors Fitch Ratings' completion of agreed management actions arising from regulatory exams and recommendations. The team regularly liaises with regulators through in-person visits or conference calls. Regulatory Compliance is also responsible for oversight of the processes regarding the handling and resolution of conduct-related complaints, and for undertaking certain conduct-related internal investigations. Regulatory Compliance also conducts outreach to Fitch Ratings' offices without a local compliance officer through either on-site visits or teleconferences. Regulatory Compliance is structured by geographic region covering the Americas, APAC and EMEA. Each region is led by a Regional Head of Compliance.
- (ii) **Personal Conflicts Monitoring:** The Personal Conflicts Monitoring team ("PCM") administers Fitch Ratings' Global Securities Trading and Conflicts of Interest Policy ("Bulletin 13"). Bulletin 13 is designed to minimise actual and potential conflicts that may arise from employees' personal trading activity, outside interests and external relationships. The bulletin also addresses the gift policy and guidance in relation to business events and entertainment.

In order to administer the program, PCM utilises a third party trade compliance surveillance system which is used to monitor employee trading activity, administer certifications and manage employee disclosures. Employees must complete an initial compliance certification prior to their start date and attest on an ongoing basis during the annual compliance certification to their securities accounts, holdings and other potential conflicts. Further, PCM is responsible for managing employee's requests for exceptions and/or the need to implement recusals related to potential conflicts related to Bulletin 13.

- (iii) **Compliance Testing and Monitoring:** The Compliance Testing and Monitoring team ("CTM") conducts testing throughout Fitch Ratings to assess compliance with Fitch Ratings' policies and procedures, and the effectiveness of internal controls implemented with respect to its Credit Rating and related activities. CTM develops annually a risk-based compliance test plan, which details the testing schedule for the following calendar year. The annual compliance testing plan prioritises the compliance testing universe using a risk-based approach that considers, among other factors, outcomes of compliance risk assessment, prior compliance testing, regulatory findings, and other identified issues or trends. Findings from compliance testing are documented in written reports, which are distributed to management and include details of corrective action plans. CTM also monitors the aging of corrective action plans and validates their closure. Additionally, CTM conducts monitoring of email communications sent or received by Fitch Ratings employees. Emails are flagged by dedicated software when the content of the email indicates a potential violation of policies and procedures. All flagged emails are reviewed by CTM to determine whether a violation occurred and, where appropriate, follow up investigation and remedial action is carried out.
- (iv) **Compliance Policies and Internal Communications:** The Compliance Policies and Internal Communications team ("Compliance Communications") is responsible for managing Fitch Ratings' policy, procedure and internal communications framework globally. It manages the process by which certain policies or procedures are kept current and maintained, doing so in consultation with key stakeholders. Compliance Communications prepares and presents training and other Compliance communications for employees within Fitch Group, and coordinates and manages other Compliance communications to the firm including information housed on the intranet and communicated through webex, email and in person. Compliance Communications works across functions within Compliance to identify current objectives, requirements and trends and to disseminate relevant information both within the Compliance team and to the broader employee base where appropriate.

d. Technology and Information Risk

Fitch has a technology risk management framework which defines the actions that Fitch IT perform and the policies that staff must abide by in order to protect the confidentiality, integrity and availability of Fitch's electronic information and information systems. This framework is based upon CIS Critical Security Controls version 7.1 which refers to a recommended set of 20 required IT security controls designed to detect and prevent attacks and other threats in the IT environment. The 20 controls are monitored and discussed during the monthly Technology Risk Committee meeting, which provides oversight and governance over the Technology Risk program at Fitch. In late 2019, Fitch established and hired for the position of Chief Information Security Officer ("CISO"). The CISO's mandate is to develop and manage a Technology Risk program, including, but not limited to, vulnerability management, metrics and reporting, entitlements management and governance, application security, and vendor technology risk management. The CISO at Fitch Group reports to the CRO, and oversees information security for all of Fitch Group's business units. The CISO, is responsible for forming the strategy for and leading the operational implementation of a company-wide information security program. The CISO works in partnership with senior members of technology, business, legal, and compliance teams.

(7) Third Line of Defence – Internal Audit

IA provides independent and objective assurance as to the adequacy and effectiveness of Fitch Ratings' risk framework, controls and governance processes. The Head of IA reports to the Independent Directors and the CRO. At least annually, the Head of IA submits to the Independent Directors and the CRO an internal audit plan for review and approval.

The plan consists of the IA work schedule for the upcoming financial year. It is developed using a risk-based methodology and includes input from the Independent Directors, the CRO and other members of Fitch Ratings' senior management. On an ongoing basis, thereafter, the Head of IA reviews and adjusts the plan, as necessary, in response to changes in Fitch Ratings' business, risks, operations, programs, systems and controls. Any significant deviation from the approved internal audit plan is communicated to the Independent Directors and the CRO.

After the conclusion of each internal audit engagement, IA issues and distributes a written report to relevant management and the Board. The report details audit findings and recommendations together with management's corrective actions and their timeframes for completion. Subsequently, IA is responsible for monitoring and approving completion of corrective actions.

The Head of IA reports quarterly to the Independent Directors and the CRO on the progress and performance regarding the audit plan.

(8) Global IT Structure and Systems

Fitch IT manages the technology infrastructure, application development and first line IT information security for Fitch Ratings globally. Fitch IT also undertakes the following:

- Manages access control for file, folders and applications in compliance with confidentiality and conflict of interest policies;
- Manages data security in compliance with confidentiality policies;
- Maintains and monitors infrastructure including desktops, networks and data centres required for ongoing operations;
- Manages disaster recovery plans and performs quarterly system recovery tests; and
- Develops and maintains custom applications required to support core ratings activities such as workflow systems, analysis and surveillance systems, and publishing and document management systems.

3. Record Keeping Policy

Fitch Ratings has global file maintenance and recordkeeping policies and practices that are designed, collectively, to ensure that it maintains adequate records in accordance with all applicable laws and regulations including, but not limited to, the regulations in Hong Kong. There are two main recordkeeping policies that apply: the File Maintenance and Recordkeeping Policy for Analytical Groups and Core Operations, and the file maintenance and recordkeeping requirements in the BRM Process Manual.

Additional details regarding the exact content of the information that must be included in certain documents referenced in the File Maintenance and Recordkeeping Policy for Analytical Groups and Core Operations – such as rating committee minutes – are contained in internal manuals that provide detailed procedural guidance on the rating process. Other non-analytical groups, such as the Accounts Group, maintain separate internal recordkeeping policies.

Collectively, these policies and procedures require that, among other things, Fitch (Hong Kong) Limited maintains records for a period of at least seven years that cover the following:

- Documents including internal records and working papers used or created in support of determining and assigning any type of Credit Rating, assessment, opinion, score or other Fitch Ratings credit product;
- Electronic or written communications received or sent by Fitch Ratings and its employees concerning fee negotiations;
- Records of the solicited and unsolicited status of each Credit Rating;
- Records documenting the established procedures and methodologies used by Fitch Ratings to determine Credit Ratings;
- Records of the procedures and measures implemented by Fitch Ratings to comply with any applicable regulations; and
- External and internal communications, including emails received and sent by Fitch Ratings and its employees that relates to determining, maintaining, monitoring, changing or withdrawing a Credit Rating.

4. Management and Rating Analyst Rotation Policy

Management

Fitch Ratings operates in Hong Kong through its Hong Kong-incorporated subsidiary, Fitch (Hong Kong) Limited, which is 100% owned by FRL, a UK company.

The individual board members of Fitch (Hong Kong) Limited as at 31 December 2019 are Jonathan Cornish, Kwong Li, Hyejin Yoon and Peter Anthony Evans.

The organisation of Fitch Ratings' analytical management is not structured around the corporate organisation. Each of the analytical staff employed within Fitch (Hong Kong) Limited reports to a regional group head, in some cases through a series of line managers. The regional group heads report ultimately to a senior global group head. Currently, three of Fitch Ratings' five senior global group heads are based in New York, one is based in London and one is based in Hong Kong. All five senior analytical global group heads report to the Global Analytical Head who is based in New York. This individual reports to the President of Fitch Ratings, Ian Linnell, who is based in London.

Rating Analyst Rotation

Fitch Ratings has a policy governing analyst rotation designed to meet local regulatory requirements in the relevant jurisdictions. The rotation policy reflects changes to the EU endorsement regime effective from 1 January 2019. Rotation requirements apply to analysts working on endorsed credit ratings which includes analysts based in Fitch (Hong Kong) Limited. The rotation policy is available on Fitch Ratings' website at <https://www.fitchratings.com/ethics>.