

## Egan-Jones Ratings Co.

Form NRSRO Exhibit 7

### Policies and procedures to address and manage conflicts of interest.

March 28, 2016

The following references are identified to the risks cited in Exhibit 6:

1. The firm has established the policies and procedures “Policies and Procedures Addressing and Managing Conflict of Interest 1” in place to protect the integrity of the ratings process and to reasonably prevent influence by the subscribers with such interest in the firm’s ratings process. The Firm actively notifies the subscriber not to disclose position holdings, trading or business intent to the Firm. Solicited ratings from subscribers are dealt with in a manner as to withhold the subscriber identification from the ratings group.

2. Compliance Manual: Egan-Jones Proxy Services (“EJP”) provides research, recommendations, voting, and voting record keeping services on various shareholder proxy voting matters. The service includes an evaluation of the various agenda items in the proxy statements, recommended voting action, and an overall rating of the firms' corporate governance. In addition, EJP provides a web-based interface to enable clients to access reports prior to the voting date and archived thereafter for up to five years. EJP and EJR personnel do not have access to each other’s websites, client holdings, draft reports, and other aspects related to the issuance of reports for each business. EJP personnel are not involved in the generation of EJR ratings reports and EJR personnel are not involved in the generation of EJP reports.

Policies and Procedures: “Separation between Ratings and Proxy Services” restricts the rating analysts (including the CEO of EJR, who is also a rating analyst) from initiating meetings with current and prospective proxy clients, and shall also be restricted from detailed information regarding current and potential client sales efforts.

3. The firm has established the policies and procedures to in place to address this conflict of interest. EJR’s “Policies and Procedures Addressing and Managing Conflict of Interest 3\_6” indicates that the firm takes certain steps to prevent gaining knowledge of the subscriber’s reason for using its ratings service. Generally, the subscriber clients are advised to communicate with the EJR’s Marketing team regarding their rating service needs.

4. Code of Conduct: The Section of “Personal Securities Transactions and Holdings” indicates that the Firm’s personal securities policy is designed to address potential conflicts of interest in cases where Associated Persons have ownership positions in issuers the Firm does business with. The policy generally only allows for the ownership or trading of mutual funds, ETFs and the existence of blind trusts and similar investment vehicles managed by a third-party, where the Associated Person has no direct or indirect influence or control over the trust or account (“Third-Party Accounts”). More information please visit the Exhibit #5 Code of Conduct.

5. Outside business activities are defined as any activity involving a business enterprise or involving an entity which might be rated by the Firm. Excluded from this definition are civic, religious, academic, non-profit, and other similar enterprises.

EJR set up the compliance control 'Compliance Response Sheet' to require the Board members, Employees, and Associated Persons to disclose their outside business activities periodically. Ratings analysts specifically are not permitted to have outside business activities which conflict with the issuance of ratings.

6. EJRs "Policies and Procedures Addressing and Managing Conflict of Interest 3\_6" indicates that the ratings group is separated from the sales and marketing areas and is isolated from information regarding fees. In the event that analysts become aware of any fees, they are removed from the process for rating that issuer, or follow the direction from the EJR's compliance department.

Subscribers may occasionally request ratings or updates on ratings reports already covered by the firm. As outlined further in the Conflicts sections, the firm retains information relating to whether ratings are solicited by subscribers, initiated by the ratings group or driven by other factors. In order to manage one of the conflicts related to solicited ratings by subscribers, the firm does not inform the ratings group of the identity of the requestor.

Additionally the firm informs its subscriber base not to identify to the Analysts or salespersons the holdings of the subscribers or their trading intentions so as to preserve the independence of the ratings process. Periodically the firm sends out emails to its subscriber base reminding them of this policy.

7. Compliance Manual: The Firm publishes its reports to all subscribers simultaneously and does not provide research reports to anyone outside the ratings department until the report is published. No parties, including premium subscribers, shall in any way be provided with advance information on pending rating actions.

All enabled subscribers have access to the report upon publication. No non-analyst personnel have access to the reports prior to their publication.

Upon completion of the analyst's work with the interactive model, a macro is enabled that immediately generates the rating report, publishes it to the website and notifies subscribers of the availability of the publication. The Private ratings are not published to the website unless requested by client.

Subscribers may occasionally request ratings or updates on ratings reports already covered by the firm. As outlined further in the Conflicts sections, the firm retains information relating to whether ratings are solicited by subscribers, initiated by the ratings desk or driven by other factors. In order to manage one of the conflicts related to solicited ratings by subscribers, the firm does not inform the ratings desk of the identity of the requestor. Additionally the firm informs its subscriber base not to identify to the Analysts or salespersons the holdings of the subscribers or their trading intentions so as to preserve the independence of the ratings process. Periodically the firm sends out emails to its subscriber base reminding them of this policy. The COO is responsible for such notifications.

#### 8. Procedures and Methodologies for Determining Credit Ratings:

A private rating non-subscriber rating is prepared for a restricted audience, where the rating, any supporting report, and knowledge of the rating, is limited in accordance with the terms of the arrangement with the issuer or third party. Non-subscriber ratings are not disseminated to the public.

Non-subscriber ratings may include issuer participation, be based on publicly available information, and may be initiated by Egan-Jones, the Issuer or an interested third party. The level of analysis performed on a specific issuer or security would be the same for both public and private ratings.

Non-subscriber ratings may be used for a variety of reasons including, but not limited to: an issuer request for the purposes of issuing debt to a small number of investors who intend to use the rating as an independent rating opinion; an independent rating opinion requested by an investor, regulator, government, or other interested third party; analyze transaction party and/or counterparty credit exposure for Structured Finance ratings.

The sharing of all knowledge, information and records regarding a non-subscriber rating is limited in accordance with the terms of the arrangement with the issuer or third party who requested the rating and in adherence to Egan-Jones policies and procedures. Egan-Jones monitors non-subscriber ratings through regular and timely reviews and disseminates the results only as previously arranged.

All non-subscriber ratings are developed in accordance with current rating methodologies, policies and procedures.

## **Policies and Procedures Addressing and Managing Conflict of Interest 1**

March 28, 2016

Form NRSRO Exhibit #6

Identification of conflicts of interests relating to the issuance of credit ratings:

1: Egan-Jones is paid by persons for subscriptions to receive or access credit ratings where such subscribers may own or have financial interests or perform transactions in the securities of the issuers which could be favorably or negatively affected by the credit ratings issued by the firm.

EJR's addressing and management:

The firm has systems and policies in place to protect the independence of the ratings process and to reasonably prevent influence by the subscribers with such interest in the firm's ratings process.

The Firm's personnel actively notifies the subscriber not to disclose position holdings, trading or business intent to the Firm. Solicited ratings from subscribers are dealt with in a manner as to withhold the subscriber identification from the ratings desk to ensure independence.

## **Policies and Procedures Addressing and Managing Conflict of Interest 3\_6**

March 28, 2016

Form NRSRO Exhibit #6

Identification of conflicts of interests relating to the issuance of credit ratings:

3: Egan-Jones is paid by persons for subscriptions to receive or access its credit ratings and/or for other services offered by Egan-Jones where such persons may use Egan-Jones credit ratings to comply with, and obtain benefits or relief under statutes and regulations using the term “Nationally Recognized Statistical Rating Organization.”

6: Being paid for services in addition to determining credit ratings by issuers, underwriters, or obligors that have paid EJR to determine a credit rating.

EJR's addressing and management:

The firm takes certain steps to prevent gaining knowledge of the subscriber's reason for using its ratings service.

Generally, the subscriber clients are advised to communicate with the EJR's Marketing team regarding their rating service needs.

Subscribers may occasionally request ratings or updates on ratings reports already covered by the firm. As outlined further in the Conflicts sections, the firm retains information relating to whether ratings are solicited by subscribers, initiated by the ratings group or driven by other factors. In order to manage one of the conflicts related to solicited ratings by subscribers, the firm does not inform the ratings group of the identity of the requestor.

Additionally the firm informs its subscriber base not to identify to the Analysts or salespersons the holdings of the subscribers or their trading intentions so as to preserve the independence of the ratings process. Periodically the firm sends out emails to its subscriber base reminding them of this policy.

The ratings group is separated from the sales and marketing areas and is isolated from information regarding fees. In the event that analysts become aware of any fees, they are removed from the process for rating that issuer, or follow the direction from the EJR's compliance department.

## **Separation between Ratings and Proxy Services**

September 29 2015

The EJR rating analysts (including the CEO of EJR, who is also **a rating analyst**) shall be restricted from initiating meetings with current and prospective proxy clients, and shall also be restricted from detailed information regarding current and potential client sales efforts.

However, the CEO shall be allowed to communicate general Firm support to current and potential clients.

More information please see the Compliance Manual "PROXY SERVICES POLICY AND PROCEDURE".

*Note: These rules have been added to address the SEC recommendations to 2015 Exam.*