

# TRANSPARENCY REPORT 2019



**SPREAD**  
RATINGS



**Spread Research**  
Independent Credit Research

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## Introduction

Founded in 2004 and based in Lyon, France, QIVALIO (1) is the first independent French Credit Rating Agency, being registered by the European Securities and Markets Authority (ESMA), and the first European Integrated European Rating agency, since its tie-up with EthiSquare (EthiFinance/Gaia Rating), back in 2017. All business lines are gathered under the group umbrella new name QIVALIO.

The company offers key credit and ESG research for participants in the corporate credit bond markets. Our team comprises experienced credit analysts with deep knowledge and understanding of corporate credit issuers.

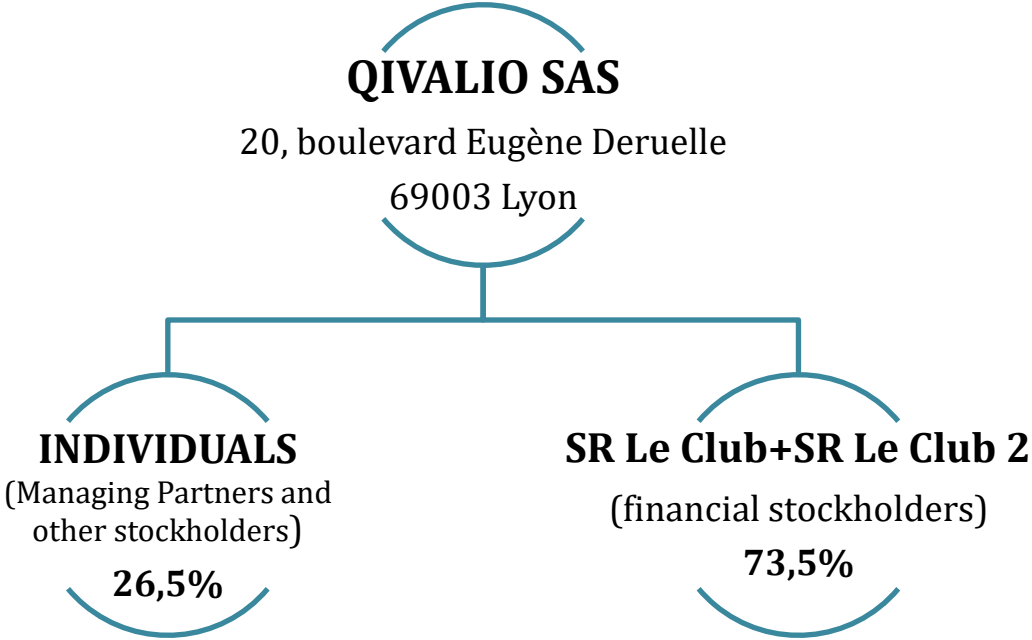
In accordance with Article 12 of Regulation (EC) N° 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, QIVALIO publishes this Transparency Report covering the period from 01/01/2019 to 31/12/2019.

The accounts of QIVALIO SAS (the legal entity) are closed on a calendar year basis. The figures contained in this document are for the 12-month period from 01/01/2019 to 31/12/2019.

- (1) Spread Research SAS changed its corporate name to QIVALIO SAS since October 12th, 2019 (date of the registration in the Trade and Company Register: certificate of incorporation).

1. Legal structure and ownership of the credit rating agency

1.1 Shareholders' structure



Quarterly Reporting of indirect Shareholders Owning 5% or More of QIVALIO SAS :  
 APICIL, La Mondiale, Caisse Régionale d’assurance mutuelle de Rhône-Alpes Auvergne, Pactivest, Klesia.

Quarterly Reporting of direct Shareholders Owning 5% or More of QIVALIO SAS :  
 JOSEPH CREATION (JULIEN REROLLE CEO)

1.2 Subsidiaries

Corporate Name	QIVALIO	Head Office
Spread Research Ltd	100%	Capital House, 85 King William Street, LONDON EC4N 7BL – UK
EthiSquare SAS (CEO: QIVALIO)	27%	23, rue de Liège 75008 PARIS
PREF-X SAS	25%	102B, rue de Miromesnil 75008 PARIS

## 2. Internal control mechanisms

### 2.1 Internal audit:

The internal audit function's main tasks are:

**To provide an in-depth understanding and analysis of the whole business**

To ensure the appropriate understanding and analysis of the whole business, the internal audit function has unrestricted access to all of QIVALIO's corporate operations, records, data files, computer programs, property, and personnel.

**To determine the business' principal risk areas, discover vulnerabilities, and rank these vulnerabilities**

An audit plan allows us to ensure a systematic coverage of all activities and operations. The internal audit function uses a risk ranking methodology for identifying the organisation's main risks in the following fields: operating risks, financial risks, and event risks. The internal audit function reviews the financial, business and functional operations and activities, with a priority focus on areas with higher risk.

The Supervisory Board and management team may also require the internal audit function to conduct ad hoc reviews of identified issues or potential vulnerabilities within the organisation.

**To communicate results and monitor follow-up actions**

Where the internal audit function identifies vulnerabilities or control deficiencies, its role is to inform the respective department and recommend immediate rectification.

When identified vulnerabilities or control deficiencies are assessed to be significant risks for the organisation, the internal audit function must inform the Supervisory Board and provide follow-up updates on the progress of remedial actions.

### 2.2 Supervisory Board:

QIVALIO reorganized its Supervisory Board in 2019.

The Supervisory Board consists of 7 members, of which 2 are independent.

The Supervisory Board is responsible for the supervision of the Internal Review and Compliance Functions.

Its members ensure that:

- (a) credit rating activities are independent, including from all political and economic influences or constraints;
- (b) any conflicts of interest are properly identified, managed and disclosed;
- (c) the credit rating agency complies with the requirements of all relevant regulation.

### 2.3 Internal Review Function:

QIVALIO has established a review function responsible for periodically reviewing its methodologies, models, and key rating assumptions, such as mathematical or correlation assumptions, and any significant changes or modifications thereto as well as the appropriateness of those methodologies, models, and key rating assumptions where they are used or intended to be used for the assessment of new financial instruments.

This review function is independent of the business lines which are responsible for credit rating activities and reports to the members of the Supervisory Board referred to in section 2.2.

The review function performs the following tasks, leading to a semi-annual Review Report which:

- periodically reviews the methodologies
- conducts back-testing exercises
- periodically reviews the models
- periodically reviews the key rating assumptions
- assesses methodology appropriateness for new financial instruments

The review function is in charge of monitoring the effectiveness of QIVALIO's policies, and of procedures regarding the control of methodology, models, rating assumptions, and methodology related to new instruments. The monitoring of the effectiveness is done by comparing the impact of the review function on the methodology, models, rating assumptions, and methodology related to new instruments before and after its report. Regardless of the size of any impact, the reason behind such an impact will be a part of the following year's report in a specific section assessing how the procedures fulfilled ESMA requirements.

### 2.4 Compliance Function

QIVALIO has established and maintained an effective compliance function department which operates independently. This department monitors and reports on compliance of the credit rating agency and its employees with the credit rating agency's obligations under the regulation.

**The compliance officer ensures the following requirements necessary for the effective working of the compliance function department:**

- (a) the compliance function has the necessary authority, resources, expertise and access to all relevant information;
- (b) the compliance officer is appointed and is responsible for the compliance function and any reporting with regard to compliance;
- (c) the managers, rating analysts, employees and any other person whose services are placed at the disposal or under the control of the credit rating agency or any person directly or indirectly linked to it by control who is involved in the compliance function is not involved in the performance of credit rating activities they monitor;
- (d) the compensation of the compliance officer is not linked to the business performance of the credit rating agency and is arranged so as to ensure the independence of his or her judgment.

The compliance officer ensures that any conflict of interest relating to the persons placed at the disposal of the compliance function is properly identified and eliminated. The compliance officer reports regularly on the carrying out of his or her duties to the supervisory board.

The compliance function is in charge of monitoring any conflicts of interest, and the application of the code of conduct. Monitoring of the effectiveness is done by assessing the impact of the compliance function as regards disclosures and resolution of realized or potential conflicts.

## 2.5 Code of conduct

Internal corporate governance policies are governed by QIVALIO's code of conduct.

QIVALIO makes sure that all external requirements are fulfilled internally through the endorsement by its employees and collaborators of a code of conduct. This code reflects QIVALIO's regulatory filings and the associations to which it belongs, directly or indirectly. QIVALIO's principal guidelines from the code of conduct are as follows:

- QIVALIO is committed to comply with a strict definition of independence in order to avoid or quickly address any conflict of interest.
- No investment recommendation can be performed on solicited ratings paid by issuers.
- QIVALIO cannot be paid by investors and corporate issuers at the same time for the same issuer.
- QIVALIO employees are committed to apply best practices and personal skills to better serve the organization and its clients.
- The QIVALIO compliance officer makes sure that collaborators are aware of the rules and regulations that govern the company's activities.

## 2.6 Credit Rating Assignment Process

### 2.6.1 Rating definition

A rating is QIVALIO's measure of the future credit quality of an issuer within a 6-12-month horizon, expressed as a Probability of Default (and unlike other rating agencies not an Expected Loss). The Loss Given Default is captured separately by the recovery rate.

### 2.6.2 Rating process

#### **Responsibilities**

The lead rating analyst is responsible for conducting the fundamental credit analysis, formulating a rating proposal based on QIVALIO's relevant criteria and methodology, as described later, and for presenting sufficient and relevant information to the rating committee.

#### **Information required**

The minimum public information required is:

- the two latest annual reports and their audit certification;
- the latest interim report if any (either quarterly or semi-annual);
- the management's discussions of operating results, including the review of competition and market developments;
- the documentation on public bond instruments;
- one contact during the last twelve months between QIVALIO's rating analyst and the company's management or investor relations department.

In the event of a solicited rating, where QIVALIO has access to non-public information, it will also be required to obtain more specific information such as contractual agreements, governance set up or business plan for instance.

## Rating production

The unsolicited rating production process is organized through the following steps:

- Step 1: Review of annual reports (at least the two latest) and their audit certification.
- Step 2: Review of the quarterly results and all information available in the investor relations section.
- Step 3: Review of competition and market developments. This can be done on the basis of the company's information on its market position, or information available from its competitors, industry associations or the regulator's database.
- Step 4: Review of the bond preliminary prospectus when available.

=> Steps 1 to 4: For each of these steps, the rating analyst fills in QIVALIO's excel model with historical data available, including financial statements, the breakdown of the group's (1) revenues, (2) operating margin, and (3) debt structure, plus the summary of the financial covenants that have been disclosed to QIVALIO.

- Step 5: Call with the management, if the company agrees. In particular, the lead rating analyst pays attention to the company's strategy, its acquisition and dividend policies, as well as its financial leverage target (if any).
- Step 6: The quality of the information received and used through the rating process is assessed and summarized in the "Transparency Index" issued by QIVALIO's analysts.

QIVALIO produces documents that map key financial ratios for each level of rating (i.e. adjusted EBITDA margins, leverage ratios, coverage ratios), and these documents can serve as a benchmark for the rating assignment exercise.

The solicited rating production process includes the same steps but with substantially more interaction with the management of the company.

### 2.6.3 Rating methodology

#### **LONG-TERM CORPORATE RATING METHODOLOGICAL APPROACH**

The long-term rating is QIVALIO's measure of the future credit quality of an issuer within a 6- to 12-month horizon; it is closely linked to a Probability of Default.

The Loss Given Default is captured separately by the recovery rate. Ratings assigned by QIVALIO are based on an analysis of a mix of qualitative factors (e.g. business risk profile, management strategy) and quantitative factors (e.g. historical and projected credit metrics, liquidity). More specifically, a rating is the combination of an issuer's business risk profile and its financial risk profile. Certain specific credit considerations may subsequently cap such rating at a lower level than originally envisaged.

<https://www.spreadratings.com/wp-content/uploads/2019/12/SrLongTermCorporateRatingMethodology.pdf>

#### **SHORT-TERM CORPORATE RATING METHODOLOGICAL APPROACH**

QIVALIO short-term ratings are a measure of an issuer's ability to fulfill its debt-related payments within a 12-15 months' timeframe.

QIVALIO short-term ratings are used to assess the risk of short-term instruments that are mostly unsecured and have a maturity less than 15 months. Such instruments include commercial paper, short-term notes, and long-term notes close to maturity.

<https://www.spreadratings.com/wp-content/uploads/2019/12/SrShortTermCorporateRatingMethodology.pdf>



## **INVESTMENT HOLDINGS CORPORATE RATING METHODOLOGY**

An investment holding company is defined by QIVALIO as a legal entity with the primary purpose of owning a portfolio of investments, generally composed of equity stakes in companies that are typically not related to each other.

The methodology for rating investment holdings is derived from QIVALIO's global rating methodology.

<https://www.spreadratings.com/wp-content/uploads/2019/12/SrInvestmentHoldingsCorporateRatingMethodology.pdf>

### 2.6.4 Rating monitoring

#### **FREQUENCY**

QIVALIO's ratings are monitored on an ongoing basis.

In addition, the credit committee must publish a rating report of a rated entity at least every 12 months, even if the lead rating analyst recommends maintaining the existing rating.

#### **MONITORING PROCESS**

##### **Collection of information**

The monitoring is primarily based on the following pieces of information:

- Rated entity's financial information.
- Press articles.
- Financial database.
- Market indicators, where available.
- Available documentation on bonds and bank debts.
- Sector information.

##### **Analysis & assessment of information**

Whenever a new financial report of the rated entity is made available (mostly on a quarterly basis, but it can be on a semi-annual or on an annual basis), the financial model is updated and all new results lead to a fresh fundamental review of the issuer.

QIVALIO's ratings are forward-looking. Historical data, as well as market forecasts, are used to determine the rated entity's credit trend and risk of default in the near future.

Trigger for a rating change:

The lead rating analyst may recommend a change in rating when he/she becomes aware of any financial, business, economical or operational information that he/she thinks might result in a rating action consistent with QIVALIO's relevant criteria and methodology.

### 3. Credit rating personnel distribution

**Credit ratings analysts: 8**

-Rating Committee: 8  
-Methodologies Development: 5  
-Senior management: 3  
-Credit Rating support: 2

### 4. Record-keeping policy

**All documentation related to the sales/marketing functions** is kept on record on a separate and dedicated local network or in a locker for physical documentation, not accessible to analysts. The compliance officer has access to these records.

**All documentation related to the investment recommendation** activity and to the credit rating activity are kept separated on information systems.

**The identity of rating analysts** determining credit ratings is made available on the QIVALIO website as the name of the analyst is published on the document posted to the website and sent by email to our subscribing clients. The identity of rating analysts approving the credit ratings is kept on the credit committee form. If a rating is solicited, it is mentioned on the credit rating report. The date of the rating action is kept on the QIVALIO website.

**All reports published to clients** are kept on record on the website, which is the central repository database, but there is no information related to the fees received from any rated entity nor any client on the website (these records are kept separately).

**All documentation related to established procedures and methodologies** used by the credit rating agency to determine credit ratings is kept on record on a separate and dedicated local network or in a locker for physical documentation accessible to analysts and the compliance officer only. Rating methodologies are also published on the three websites : [www.qivalio.com](http://www.qivalio.com) [www.spreadratings.com](http://www.spreadratings.com) and [www.spreadresearch.com](http://www.spreadresearch.com)

**All documentation relating to issuers, sectors, market, etc** are kept on record on a separate and dedicated local network (not on the website) or in a locker for physical documentation, with an automatic back-up once a day on a local hard drive, accessible to analysts and the compliance officer only.

**Credit analysis reports, credit assessment reports, and private credit rating reports and internal records**, including non-public information and work papers, used to form the basis of the opinions expressed in such reports are kept on a separate and dedicated local network or in a locker for physical documentation, accessible to analysts and the compliance officer only.

**All documentation relating to the records of the procedures and measures implemented by the credit rating agency to comply with regulation** is kept on record on a separate and dedicated local network or in a locker for physical documentation, accessible to only the Managing Partners of the company and its compliance officer.

**All internal and external communications**, including electronic communications, received and sent by the credit rating agency and its employees, that relate to credit rating activities, are kept on record on a separate and dedicated local network or in a locker for physical documentation, with an automatic back-up once a day on a local hard drive, accessible to analysts and the compliance officer only.

**The records of the documentation listed above are kept at the premises of QIVALIO and can be made available upon request to the competent authorities. QIVALIO commits to keeping these records for at least 5 years. QIVALIO also commits to keep these records for 3 years following any withdrawal of its registration as a credit rating agency.**

Contracts with third parties are kept at QIVALIO premises.

A company cannot be both rated -in a solicited way- by QIVALIO and be part of the research coverage of QIVALIO.

For solicited ratings, the contract setting out the rights and obligations of QIVALIO and of the rated entity is kept on a separate and dedicated local network or in a locker for physical documentation, accessible only to the CEO and the accountant of the company, as well as the compliance officer of the company.

## 5. Internal Review of the Compliance Function

The function of the internal review is to review QIVALIO's efficiency and independence, its compliance with ESMA regulation, and the validation of its work plan. Additionally, the review's goal is to validate the company's adequacy with regards to its rating activity and to assess compliance functions.

## 6. Management and rating analyst rotation policy

Given the number of employees, QIVALIO made an exemption demand related to the rating analyst rotation policy.

## 7. Information on Revenues

### Activity

Rating Activities	710 K€
Ancillary Services	652 K€
<b>Total</b>	<b>1 362 K€</b>

No client represents more than 5% of the annual revenue of QIVALIO SAS.

## 8. Corporate Governance statement

This is the governance statement within the meaning of Article 46a(1) of Council Directive 2013/34/UE of 26 June 2013.

On the basis of this Directive:

-Internal corporate governance policies are governed by QIVALIO's code of conduct. In order to give guidelines regarding best practices in employees' work both internally and externally, and regarding the financial community and its regulation, QIVALIO has set up its code of conduct. All employees are required to sign it in order to protect both himself/herself and the organization against any kind of misconduct.

- QIVALIO's internal controls and risk management systems in relation to the financial reporting process are listed and described in section 2 of this transparency report.

- QIVALIO's legal entity is SAS « Société Anonyme Simplifiée » and shareholders' rights are governed by QIVALIO SAS' statutes.

-Supervisory Board and Audit committee members' responsibilities are detailed below:

Executive Board:

CEO : Julien Rérolle

New executive Director: Emmanuel de La Ville, since October 12th, 2019

New executive Director: Philippe Tastevin, since October 12th, 2019

Supervisory Board:

President: Sylvain de Forges, until June 26<sup>th</sup>, 2019

**President: Pierre Ducret, since July 8th, 2019** (member from June 26<sup>th</sup>, 2019)

Vice-President: Bertrand Jounin

**Independent member: Nicolas Fourt**

Independent member: Thomas Gadenne, resigned member, left on September 5<sup>th</sup>, 2019

**Independent member: Jean-Florent Rérolle (1) since September 5<sup>th</sup>, 2019**

Member: Hervé Hillion, until June 26th, 2019

**Member: Bruno Silva from June 26<sup>th</sup>, 2019**

**Member: Alban de La Selle**

**Member: Julien Rérolle**

Audit committee:

**Independent member: Nicolas Fourt**

Independent member: Thomas Gadenne, resigned member, left on September 5<sup>th</sup>, 2019

**Independent member: Jean-Florent Rérolle (1) since September 5<sup>th</sup>, 2019**

**Member: Bertrand Jounin**

Three Board members resigned and two new members were appointed during the annual General Meeting of shareholders on June 26th 2019.

The Supervisory Board appointed a new President on July 8th, 2019.

The third member was appointed during the Extraordinary General Meeting of Shareholders that took place in September 2019.

(1) With no close family tie with the CEO

## Contact

QIVALIO

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[www.qivalio.com](http://www.qivalio.com)

QIVALIO has been “**registered** or **certified** in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agencies Regulation)”:

Name of CRA	Country of residence	Status	Effective date	Legal entity identifier
QIVALIO SAS (previously Spread Research)	France	Registered	1 July 2013	969500HB6BV M2UJDOC52

Source : <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>