

# Disclosure of Conflicts of Interest and other Regulatory Requirements

Documentation, disclosure of conflicts of interest, shareholdings, principles of employee remuneration, principles of remuneration of fedafin, ancillary services, qualified sales shares, credit rating terminology, distribution and withdrawal of credit ratings, change of credit rating criteria and assumptions, possibility of complaints, credit rating scale, time horizon of credit ratings, definition of default, defaults, use of external credit ratings

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## Documentation

The following links will take you directly to the relevant regulations and documentation, which also describe the credit rating methodology and validation, including historical transition and default probabilities:

- [Code of Conduct \(German\)](#)
- [Rating Process \(German\)](#)
- Documentations:
  - o [Regional and Local Government Rating Methodology](#)
  - o [Corporate Rating Methodology](#)
  - o [Bank Rating Methodology](#)
  - o [Insurance Companies Rating Methodology](#)
  - o [Real Estate Companies Rating Methodology](#)
  - o [Real Estate Secured Debt Credit Methodology](#)
  - o [Guarantee & Extraordinary Support Methodology](#)
  - o [Expected Loss Credit Rating Methodology](#)
  - o [Idealized Rates Benchmark](#)
  - o [Energy Sector Overview](#)
  - o [Healthcare Sector Overview](#)
  - o [Transportation Sector Overview](#)
  - o [ESG Ratings Methodology](#)
- [Historical migration and default probabilities](#)

## Conflicts of Interest

This is where fedafin publishes all actual or potential conflicts of interest. If the actual or potential conflict of interest is singular or relates exclusively to an individual rating action, it is disclosed in the corresponding credit rating report.

As a rule, whenever fedafin employees (and/or their relatives) hold securities of issuers rated by fedafin, they are excluded from the relevant rating process.

## Shareholdings

Fedafin does not hold any direct or indirect economic interests in rated entities, issuers, or issues, and conversely there are no direct or indirect economic interests of these in fedafin. All shareholders or natural persons with beneficial ownership of more than 5% of the share capital are represented on fedafin's Board of Directors.

## Principles of Employee Remuneration

Compensation and evaluation of employees who are involved in or can influence rating preparation and assignment are independent of fedafin's income earned from issuers, debtors, by rating an issuance, or from investors or subscribers of ratings.

## Principles of Remuneration of Fedafin

From rated issuers, debtors, intermediaries, lead underwriters, or arrangers, fedafin does not receive any remuneration that is independent of rating activities.

Generally, assigning or obtaining ratings is associated with fees of 1.5-1.8 basis points (bp) on the corresponding volume of exposure (portfolio or debt x duration, excl. VAT in each case). A minimum fee is possible. For detailed rating reports, in particular for bond issuances, usually one-time fees of 4-6 bp are charged.

## Ancillary Services

Fedafin is exclusively active in the rating business; there are no other business fields and no ancillary activities. In particular, fedafin does not provide advisory and support services. The rating business also includes ESG ratings and the provision of data to investors.

## Qualified Sales Shares

Fedafin receives more than 10% of annual revenues from the following clients (rating subscribers): PostFinance AG.

## Credit Rating Terminology

### Definition and Limitations of Credit Ratings

Credit ratings are forecasts of the probability of future default events. They are not exact measurements but objectified estimations of the probability of a future default. They are established based on a systematic assessment of data and information, and a detailed quantitative and qualitative analysis thereof. Credit ratings are assigned based on data and information that are classified as reliable and trustworthy, and are either available from publicly accessible sources and/or obtained directly from the client or issuer. Audited or revised financial statements are classified as trustworthy and not examined further. Due diligence is not part of the rating process. The rating process is carried out with the utmost care and to the best of fedafin's knowledge and belief. However, fedafin cannot guarantee the accuracy, correctness, and/or completeness of a credit rating. Content and results of a rating assessment only represent the expression of an opinion concerning the creditworthiness of an issuer or issue, and are established without taking into account objectives, financial situation, or requirements of a specific investor. Therefore, credit ratings do not represent an offer, a recommendation, or an advice for financial activities of any kind, and do not acquit users of credit ratings of performing their own assessment. It is also a particular concern of fedafin that market participants themselves are involved in assessing the creditworthiness of an issuer or an issue.

Credit ratings may be used for evaluation, for example as an input factor; however, excessive and uncritical reliance on credit ratings should always be avoided. In accordance with international and national efforts ("Reducing the Reliance on CRAs / CRA Ratings"), fedafin strives to reduce the excessive dependence on (recognized) ratings among investors, rating users, and other market participants and to promote the reflection of credit assessments by them.

### Participation of Issuers (NPCI / PCI)

Under certain circumstances, credit ratings of companies may be based exclusively on the use of publicly available data sources, i.e. they are assigned without the involvement of the issuer. In these cases, the corresponding credit ratings are marked in accordance with international regulatory standards. Labelling is carried out with the suffix NPCI (Non Participating Corporate Issuer), in contrast to PCI (Participating Corporate Issuer).

In this context, the generally high standard of publication of information relevant to the creditworthiness (quantitative and qualitative) of listed companies is worth mentioning. This development is due to the systematic tightening of accounting standards in recent decades with regard to the disclosure requirements for listed companies.

## Desktop Rating

A desktop rating reflects an issuer's or issue's creditworthiness on a given date (snapshot in time). Desktop ratings are not subject to monitoring and accordingly no rating updates are provided. It is an "internal" rating with no external use and no regulatory usability. The corresponding rating report is kept deliberately lean. A desktop rating may differ from the ordinary or definitive rating.

## Distribution and Withdrawal of Credit Ratings

Fedafin publishes non-public credit ratings in a comprehensive and transparent manner on the Internet portal e-Rating for customers or subscribers of ratings (Investor Solicited Ratings) with access authorization. Authorized market participants are informed daily (and/or directly if necessary) about rating assignments in the news section of the Internet portal. This also includes notification of any withdrawal or suspension of credit ratings. Specifically, information is provided on a daily basis, if possible, on whether a credit rating is no longer covered by fedafin and no longer subject to constant monitoring (status "suspended") or whether a credit rating is withdrawn, including information on the reason (status "withdrawn"). Credit ratings that are no longer in demand or credit ratings for which there is no longer an order (from investors or subscribers to ratings or issuers) will be suspended or no longer covered and will no longer be subject to continuous monitoring and will be removed from the portal after three months. When ratings are suspended, this is indicated for each rating and made known to rating users by means of an entry in the news section of the e-Rating Internet portal, including the date on which the rating was last updated or reviewed and the reason why the rating is no longer monitored. If a rating is withdrawn, it is immediately removed. Communication also takes place by means of an entry in the news section of the e-Rating Internet portal, including the reason for the revocation. Public rating reports are published non-selectively on the website in the same way, provided the issuer has given its written consent (no consent is required for the withdrawal or the suspension).

## Change of Credit Rating Criteria and Assumptions

Fedafin discloses any significant changes to the rating methodology on the website before such changes take effect, provided that this does not adversely affect the integrity of a rating by unduly delaying the implementation of a rating action.

## Possibility of Complaints

All market participants who have questions, suggestions, or other feedback with regard to the Code of Conduct, the present disclosure of regulatory requirements, or in any other matter concerning fedafin are asked to contact the Compliance Officer. He is responsible for receiving, storing, and handling complaints or reports from market participants and the public. Contact may also be made confidentially or, if necessary, anonymously by letter post:

- Phone: +41 71 552 32 00
- Email: [beschwerden@fedafin.ch](mailto:beschwerden@fedafin.ch)
- Postal address: fedafin AG, Compliance Officer, Galerieweg 8, 9443 Widnau, Switzerland

## Credit Rating Scale

Fedafin uses the following scale for all credit rating assignments:

Category	Description
Aaa	<p>Highest credit quality</p> <p>The obligor has extremely strong capacity to meet its financial commitments. Very effective institutional frameworks and/or extensive financial guarantees by third parties.</p>
Aa	<p>Very high credit quality</p> <p>The obligor has very strong capacity to meet its financial commitments. Effective institutional frameworks and/or extensive financial guarantees by third parties.</p>
A	<p>High credit quality</p> <p>The obligor has strong capacity to meet its financial commitments. High earning power and reserves may be susceptible to adverse economic conditions in the long term. Reasonably effective institutional frameworks and/or partial financial guarantees by third parties.</p>
Baa	<p>Adequate credit quality</p> <p>The obligor has adequate capacity to meet its financial commitments. Earning power and reserves may be susceptible to adverse economic conditions in the medium term. Restricted institutional frameworks and/or non-binding financial guarantees by third parties.</p>
Ba	<p>Weak credit quality</p> <p>The obligor has limited capacity to meet its financial commitments. Earning power and reserves may be susceptible to adverse economic conditions in the short term. Unstable institutional frameworks and/or somewhat negative market environment. Selective remediation measures appropriate.</p>
B	<p>Very weak credit quality</p> <p>The obligor has weak capacity to meet its financial commitments. Earning power and reserves in disproportion to current financial commitments. Adverse institutional frameworks and/or negative market environment. Selective remediation measures essential.</p>
C	<p>Extremely weak credit quality</p> <p>The obligor is vulnerable to meet its financial commitments. Insufficient earning power and reserves in a clear disproportion to current financial commitments. Very adverse institutional</p>

frameworks and/or highly negative market environment. Extensive remediation measures essential.

- D**      **Default**  
 An obligor is in payment default on one or more of its financial obligations. In the case of a selective default (SD), the default relates only to certain financial instruments or classes of liabilities.
- + / -**      Rating levels from Aa to B can be supplemented with a PLUS (+) or MINUS (-) to indicate their relative position within the relevant rating category.

Categories Aaa to and including Baa are generally referred to as "investment grade", below that "sub-investment grade".

The following concordance table ("mapping") shows the categories in comparison with international credit rating agencies. It is also available on the FINMA website.

<b>Rating Classes</b>	<b><i>fedafin</i></b>	<b><i>S&amp;P</i></b>	<b><i>Moody's</i></b>	<b><i>Fitch</i></b>
1 & 2	Aaa – Aa-	AAA – AA-	Aaa – Aa3	AAA – AA-
3	A+ – A-	A+ – A-	A1 – A3	A+ – A-
4	Baa+ – Baa-	BBB+ – BBB-	Baa1 – Baa3	BBB+ – BBB-
5	Ba+ – Ba-	BB+ – BB-	Ba1 – Ba3	BB+ – BB-
6	B+ – B-	B+ – B-	B1 – B3	B+ – B-
7	C	CCC+ – C	Caa1 – C	CCC+ – C

## Time Horizon of Credit Ratings

For the definition of the time horizon of a rating assignment, fedafin follows market best practice. The market standard corresponds to a calendar year for the time horizon of a rating assignment within the framework of statistical validation. The market standard for the time horizon of monitoring a rating after it has been assigned is usually one year from the rating release. In the economic sense, when a rating is assigned to an issuer, it is a rating for more than one year, as opposed to ratings with a specific rating notation for less than one year. It can happen that an ordinary rating update is not possible within one year of the last rating assignment, for example because the publication of an issuer's new annual report is delayed. However, Fedafin always declares whether a rating assignment is current (note "current" or status "Current Rating / Under Monitoring"), so that the rating recipients know whether the rating is up to date in terms of its information content, even if the last release date is more than a year ago.

## Definition of Default

For a default (D) or a selective default (SD) to occur, at least one of the following conditions must be met:

- The occurrence of a material (> CHF 20,000) and persistent (> 90 days after the contractual payment date) default in respect of the contractually agreed debt and interest repayments;
- Initiation of bankruptcy proceedings or similar official and parliamentary proceedings due to payment difficulties (forced administration, forced takeover, forced merger, etc.);
- Execution of a capital restructuring due to payment difficulties (reduction of debt service or ranking, extension of deadlines for debt and interest repayment, exchange for riskier receivables with equity character, etc.).

Default events serve as the basis for statistical model validation (forecast quality) and for the statistical estimation of default probabilities at the different rating levels. According to Anglo-Saxon tradition, credit risk describes the probability that a counterparty will not meet its contractual payment obligations to creditors in full or on time due to its own de facto inability or unwillingness to do so. In other words, the occurrence of a loss to investors necessarily triggers a default event. On the other hand, the occurrence of a default event does not necessarily result in a loss for investors.

## Defaults

The following companies have been defined by fedafin as defaults for statistical validation since 2010: GZO AG, OC Oerlikon Corporation AG, Petroplus Holdings AG, Swissmetal Holding AG. Defaults outside the fedafin rating universe are also taken into account, as is the financial risk profile of bailouts (e.g. Kantonsspital Aarau, Hôpital Riviera-Chablais). There have been no bank defaults since 2010.

The following municipalities have been defined by fedafin as defaults for statistical validation since 1999: Airolo, Anzonico, Ausserberg, Avegno, Baltschieder, Bellwald, Berzona, Bidogno, Bignasco, Bogno, Bosco Gurin, Bourg-St.Pierre, Bratsch, Braunwald, Brione (Verzasca), Cademario, Cagiallo, Calonico, Calpiogna, Campello, Caneggio, Cavagnago, Certara, Champéry, Chavannes-près Renens, Cimadera, Coglio, Contone, Corticiasca, Eischoll, Ernen, Fiesch, Finhaut, Frasco, Fusio, Gnosca, Goppisberg, Gordevio, Gorduno, Graechen, Gresso, Grossdietwil, Indemini, Iseo, Lavertezzo, Lavizzara, Lax, Leukerbad, Lodano, Lumino, Mergoscia, Meride, Mezzovico-Vira, Moerel, Moleno, Montalchez, Monte, Obersaxen, Oberwald, Palagnedra, Peccia, Pigniu, Prato-Sornico, Pregasona, Raron, Ried-Mörel, Robasacco, Roveredo Capriasca, Rüti (GL), Saas-Almagell, Saas Balen, Saas-Grund, Sagno, Salins, Sobrio, Sonogno, Valcolla, Visperterminen, Vogorno, Zeneggen. The defaults of Leukerbad and Saas-Almagell are cases in which creditors suffered losses at the time (LGD>0). In all other cases, forced mergers or financing injections (waiver of value adjustments, hidden bailout) often took place, in which creditors did not suffer any losses (LGD=0).

## Use of External Credit Ratings

In exceptional cases, the inclusion of external credit ratings is useful and necessary for economic reasons in order to adequately reflect the implicit and/or explicit support by respective guarantors. External credit ratings (excluding the Swiss Confederation) must be taken into account if, cumulatively, no adequate credit assessment

would otherwise be possible, the guarantor in question has no rating from fedafin, and this guarantor has a current rating from a credit rating agency recognized by FINMA and specified below. Otherwise, the rating assignment is to be waived. The use of non-recognized external credit ratings is excluded. If external credit ratings are used for rating purposes, they must always be subjected to a plausibility check by the rating team. An unintended use is excluded. In justified cases, the external credit rating can be adjusted by a maximum of +/- two notches. If there are different external credit ratings, the following final prioritization applies: 1) Standard & Poor's, 2) Moody's, 3) Fitch. On the rating report, Fedafin transparently declares the use of recognized external ratings when assigning ratings, stating the rating agency concerned, the specific rating, including the date of assignment, information on any adjustment of the external credit rating, and information on robustness.

The plausibility of external country ratings, including the federal rating, is checked by comparing selected key figures of different countries. Switzerland performs excellently in comparison with both the other Aaa states and the other European countries. In terms of creditworthiness, the Confederation is therefore rated as an excellent debtor with the highest rating of Aaa. There is a broad consensus about this result among the international credit rating agencies. On this basis, fedafin also considers a rating of Aaa for the Swiss Confederation to be appropriate. The federal rating is reviewed at least every six months and also in the event of any change in the assessment by the international agencies. This review is also submitted to fedafin's supervisory committee. A possible change in the federal rating would have an impact on other credit ratings (mainly cantons, municipalities, public sector companies) in line with the anchor function.



## Contact

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