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This Methodology provides the guidelines by which HR Ratings assesses compliance with the Integrity Policy of an entity or organization.

HR Ratings defines the Integrity Policy as a set of mechanisms that seek to define, identify and offer response to corruption schemes, asset misappropriation and financial frauds inside an organization. The scope of the Methodology offers an opinion on the ability of the company to prevent such schemes through its policies and the procedures and action plans the entity has in place to effectively respond in the event such situations arise. This also implies evaluating the rigor and correct application of these policies in the day-to-day, responding to the needs and context of the organization.

The Integrity Policy must foster transparency and use unified language to support the legality of the day-to-day operations and free competition in the market. HR Ratings will assess key concepts that would facilitate a culture of compliance promoted by senior management and throughout the organization. The Integrity Policy must include in its mechanisms, tools for the organization to maintain ongoing review of its bases for adapting a culture of compliance in a changing context. This culture must be understood and conveyed clearly within the organization and the relevant concepts must be adequately defined.

The Mexican Anti-Corruption Reform was published in the Official Federal Gazette in July 2016. This reform sets a minimum standard for the Integrity Policy that all entities must meet, as stipulated in Articles 24 and 25 of the Federal Administrative Responsibility Law (FARL). Meanwhile, the HR Ratings Methodology offers not only an assessment of compliance with Article 25 of the FARL, it also analyzes the Integrity Policy to verify the concepts addressed in documents like the U.S. Foreign Corrupt Practices Act (FCPA) and the U.K. 2010 Bribery Act, among others, are covered.

The methodology is comprised of two stages, the first is an Initial Assessment that, through a nine-pillar analysis, studies the Integrity Policy and the Culture of Compliance of an organization. In the second stage, the Analysis Committee, or the lead analyst, can incorporate qualitative factors that would appropriately reflect the context of the organization, considering the industry, region and country where they operate. With this, HR Ratings determines the Final Rating.

HR Ratings may include a Legal Opinion in the analysis; however, it's important to clarify that because of the current Article 25 of the FARL requirements, a satisfactory Opinion does not cover all the aspects examined in this methodology, noting certain international standards and the application of the Integrity Policy in the organization's day-to-day operation.

The Appendices to this document offer a summary of the most relevant points from the Mexican Anti-Corruption Reform, as well as a summary of the most recent study of the Association of Certified Fraud Examiners (ACFE) of 2,410 cases in 114 countries. This study discusses the most common strategies for detecting acts of corruption, misappropriation and financial fraud within an organization and which strategies have been successful.

In summary:

- The Initial Assessment evaluates whether the organization's Integrity Policy complies with nine pillars that reflect the international standard.
- Qualitative Adjustments allow the HR Ratings analysis committee, or the lead analyst, to weight the context in which the organization operates, in aspects like the industry, region and/or country; also considering the organization's record on corruption and the permeability of its Corruption Policy.

Introduction

Corruption affects all countries, but primarily developing countries. It attacks the foundations of democratic institutions by questioning the transparency of their electoral processes; it contributes to government instability and hinders homogenous economic development. The perception of corruption and a weak rule of law harm domestic and foreign investment, with significant implications for poverty and access to credit.

In this context, the purpose of this methodology is to define the concepts that HR Ratings uses to assess the Integrity Policy of an organization. HR Ratings defines Integrity Policy as a set of mechanisms laid out in the organization's rules and codes that outline, identify, mitigate and respond to corruption schemes, misappropriation and financial frauds within an organization. An efficient Integrity Policy is one that fosters transparency and uses unified language, promoting the legality of the day-to-day operations and facilitating free and open competition in the market. In its analysis, HR Ratings looks for key concepts that must meet international standards, such as a clear code of conduct that defines relevant concepts, which is disseminated within the organization in a timely manner, and which builds a culture of compliance¹ that is promoted by senior management. The HR Ratings methodology is not limited to assessing the organization's documented rules and codes, it also assesses the day-to-day application, considering undocumented practices.

The Integrity Policy must, to a considerable extent, include in its mechanisms, tools for the organization to maintain ongoing review of its bases, and the adaptation of a culture of compliance in changing contexts. The culture of compliance must be understood and disseminated throughout the organization, and must be public for clients, vendors and any other third party. For an Integrity Policy, it is not sufficient to merely include multiple processes to identify schemes, mitigate potential damages and maintain adequate records in an internal system. The organization's rules and codes must also provide for ongoing review of these processes and indicate how necessary changes can be made. The purpose of this methodology is to verify that these processes exist, that they are formalized, and that they are known to and applied by all the members of the organization, although the methodology does not offer an audit of these processes.

This methodology discusses the desirable elements in an Integrity Policy and also sets the challenge to define the most common concepts the policy would seek to prevent. In light of the fact that corruption is a political and economic phenomenon, with multiple definitions, causes and consequences, there is no consensus on measuring corruption, and it tends to carry significant opportunity and efficiency costs for society and businesses.

The United Nations Office on Drugs and Crime defines corruption as abuse of power for private gain. For HR Ratings, an illegal act intended to garner private gain may include asset misappropriation, financial fraud, making or receiving facilitation payments, and any activity outside the proper discharge of a duty to facilitate said gain.

Corruption is a contextual phenomenon, depending largely on market failures corresponding to each industry, region or country. The relationship of causality between these market failures² and corruption is not clear. However, of note is the responsibility of each government to put reforms in place to resolve these failures and discourage corrupt practices. It is also important that each government generate clear laws to combat and define these crimes, determining the responsibility and possible sanctions for each agent, public or private. This point is the basis for the Anti-Corruption Law in Mexico, which establishes the responsibility of entities on the occurrence of corrupt acts committed by

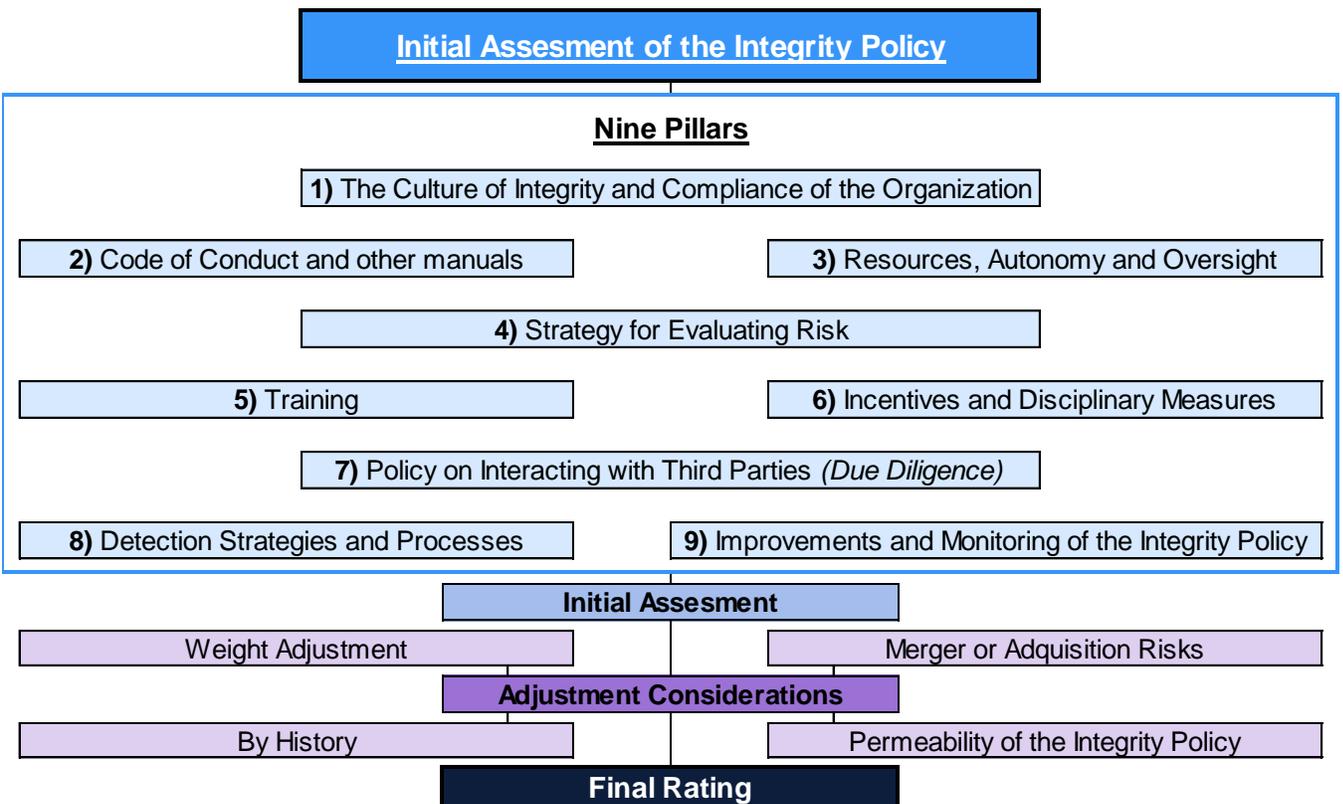
¹ HR Ratings defines Culture of Compliance as knowledge and application of an organization's rules and codes.

² Such as inefficiency, lack of transparency or poor assignment or distribution of resources.

persons misusing their representation. The law also provides the basic guidelines for an Integrity Policy that will aid an Organization to disassociate itself from said responsibility.

Applying this methodology, the HR Ratings analyst will conduct their Initial Assessment based on a questionnaire that weighs the content and application of the organization's Integrity Policy, considering nine pillars that encompass the desired concepts. These concepts include adequate definitions, sanctions for offenders, and mechanisms to keep the policy current. Table 1 shows the nine pillars evaluated in the questionnaire and the general outline of the methodology.

Table 1: HR Ratings' Evaluation Process for the Integrity Policy.



Source: HR Ratings.

The analyst will conduct site visits as necessary to apply the questionnaire for the Initial Assessment, applying various surveys and holding interviews with members of the organization. The Initial Assessment delivers a preliminary rating to which the Analysis Committee may then add or subtract qualitative notches based on specific concepts, to weight a variable to better reflect the context of the organization. Context is understood not only as the country, but also the industry, region and market in which the organization operates.

These adjustment considerations allow for the analysis of the organization's record on corruption to be incorporated and how the culture of compliances permeates throughout the organization. It is also important for HR Ratings that, following any incident, the organization's rules and codes permit the review of multiple processes around their Integrity

Policy. The correct and prompt application of these mechanisms largely depends on the permeability of the culture of compliance.

The relevant events that may trigger an additional rating action include mergers and acquisitions. It's important that the organization has protocols in place to evaluate, integrate and develop an appropriate Integrity Policy following such transactions. The protocols may result in a qualitative adjustment to the Initial Rating, but the result following a merger or acquisition will need to be assessed through a separate process.

The Final Rating will be assigned after the Analysis Committee meets to consider the Initial Assessment and the application of qualitative adjustments. Appendix 3 provides the rating range that HR Ratings may assign to an Integrity Policy.

Initial Assessment

The HR Ratings methodology considers multiple concepts to assess the Integrity Policy of an organization. Nine pillars are considered for the Initial Assessment which, in the opinion of HR Ratings, cover the necessary fundamentals for an organization to be able to identify processes that may be vulnerable to corrupt practices, to encourage their personnel to not participate in such activities, and to take appropriate measures when corrupt schemes are identified, etc.

It's important to clarify that the HR Ratings methodology defines an act of corruption as an illicit activity for gaining or maintaining business or resulting in any type of private gain. These acts tend to involve, though are not limited to: asset misappropriation, financial frauds, or any act that would lead to an offer, promise, delivery, acceptance or solicitation of an undue advantage or facilitation payment of any value (which may or may not be financial), directly or indirectly, and independent of the location, in violation of applicable law, as incentive or compensation, so that a person or entity would act or cease acting in terms of the performance of the obligations of this person or entity.

An Integrity Policy seeks to define, identify and mitigate the potential damage of the actions mentioned in the paragraph above, considering aspects such as: creating a culture of compliance and integrity in the organization; regulating prevention, identification and response processes; developing a strategy for evaluating risk, and providing all members of the organization with tools to exercise the obligations covered by the Integrity Policy. It's also important to use unified accounting language that is in keeping with international or national standards. For HR Ratings, these concepts will be evaluated under nine pillars, as shown in Table 1.

Visits will be conducted on the organization to apply the questionnaire that evaluates the nine pillars and to get to know the day-to-day operation. With this, the analyst will understand the needs and the risks the organization faces according to their commercial activity, industry, and the region or country where they operate. The visit will allow the analyst to familiarize themselves first hand with the culture of the organization and not only with how they apply their Integrity Policy.

HR Ratings will interview different members of the organization to verify their knowledge and application of the company rules of procedure. A survey will also be conducted that evaluates these concepts. The sampling of people to participate in these exercises must be representative of the company's organizational chart; and also include shareholders and independent board members; in specific cases, it may be extended to clients and vendors.

The Nine Pillars analyzed in the Initial Assessment

For the Initial Assessment, HR Ratings will study the Integrity Policy of the organization based on nine pillars that look at different desirable aspects for an Integrity Policy. This is done through a questionnaire designed to measure how the organization addresses each pillar.³ The pillars are detailed following:

1. ***The Culture of Integrity and Compliance of the Organization:*** Evaluates how the organization's senior management fosters and adheres to this culture; how accessible the Integrity Policy is for all personnel in and outside the organization, and the clarity with which it is conveyed. The existence of regular communications requiring the personnel of the organization to comply with the Integrity Policy will facilitate the assessment of this pillar.
2. ***Code of Conduct and other manuals:*** Evaluates whether the organization's manuals adequately define the concepts of corruption, misappropriation, financial fraud, and facilitation payments. It also looks at whether the manuals contradict each other and whether they adhere to Mexican legislation. This pillar evaluates the following manuals:
 - a. *Code of Conduct:* Measures how clear and concise the Code of Conduct is; whether employees, management, shareholders, clients, vendors and the general public can easily access it; whether it is revised periodically and whether necessary changes can be incorporated easily, and lastly, whether it includes policies on gifts, entertainment, trips and donations.
 - b. *Human Resources Manual:* Measures how clear and concise the Human Resources Manual is; whether employees, management and shareholders can easily access it; whether it is revised periodically and whether necessary changes can be incorporated easily, and lastly, whether it includes hiring policies according to the organization's standards of integrity.
 - c. *General Operations Manual:* Measures how clear and concise the General Operations Manual is; whether employees, management and shareholders can easily access it; whether it is revised periodically and whether necessary changes can be incorporated easily, and lastly, whether it adequately outlines the hierarchical structure of the organization and defines the functions of each position.

The manuals or documented rules of procedure must be sufficiently flexible to cover and explain the different corruption schemes and provide a process for documenting each case. Additionally, each organization may present the desired concepts in different manuals; in general, HR Ratings is looking for the functions to be clearly defined and described, that the processes are detailed, and that the proper use of the materials is described.

3. ***Resources, Autonomy and Oversight:*** This section identifies whether there is a Compliance Department within the organization, and if so, it looks at how much autonomy, authority and resources the department has available to it. It

³ The 9 Pillars cover that stipulated for the Integrity Policy in Article 25 of the Mexican Federal Administrative Responsibility Law; and cover the principal points of the U.S. Foreign Corrupt Practices Act (FCPA).

also notes whether the organization has defined processes for applying the manuals and checking compliance. These processes must be defined in the manuals themselves.

4. **Strategy for Evaluating Risk:** This pillar is one of the most important in this methodology. It assesses whether the organization identifies and catalogs risks, schemes, mitigating actions, residual risks and possible response plans, starting with:
 - a. Established Process: Whether the strategy identifies objectives, persons involved and resources; whether there is a defined risk tolerance and a way of documenting and recording risks.
 - b. Format for Identifying Risks: The strategy and tools used to gather data are evaluated; the catalog of risks; whether different corruption schemes are identified, considering asset misappropriation, financial fraud, for processes, industries and countries; lastly, whether these processes are executed through a panel or a committee.
 - c. Probability and Expected Impact: Whether the strategy calculates the probability of occurrence, potential impact, and an order of the possible risks.
 - d. Identifying Mitigating Actions: The prevention strategies at the organizational and process levels are evaluated; whether the strategies correspond to the context of the organization, and whether there is a methodology to detect schemes and catalog possible prevention and detection strategies.
 - e. Controls and Mitigation Processes: Whether the strategy requires the review of internal documents, offender interviews, compliance surveys applied to employees, shareholders and management, and whether focus groups and workshops are held.
 - f. Residual Risk: Whether the strategy identifies and catalogs risk at the process, industry and regional levels; including the interaction between these concepts.
 - g. Response Plan: Whether the strategy considers different corruption schemes, whether it includes a coordination plan and contact with the authorities, and whether this strategy responds to the context of the organization.
5. **Training:** Evaluates the frequency, the program and whether case studies are included in the trainings; whether all the members of the organization are included, independent of the hierarchy; and whether there are ongoing reviews. It also considers the organization's record on corruption and whether the Integrity Policy reflects this.
6. **Incentives and Disciplinary Measures:** This section evaluates how clearly the organization's Manuals outline possible infractions, distinguishing between corruption, misappropriation and financial fraud. It also evaluates whether the organization is clear on when to contact the authorities. This section also measures how the organization encourages the application of the manuals and

whether employees participate in the development and improvement of the Integrity Policy.

7. ***Policy on Interacting with Third Parties (Due Diligence):*** Regarding clients, vendors or other market participants with which the organization interacts, this section measures how the organization considers the reputation and record, and the strategies documented in manuals on this topic. The parameters of the interaction are also measured and whether independent audits are required. Lastly, it analyzes how third parties comply with the legislation applicable in their jurisdiction. It's important that the organization also allow third parties to review them and that there be a mechanism for implementing and documenting comments and recommendations.
8. ***Detection Strategies and Processes:*** This section is the most important in the HR Ratings analysis. It measures the effectiveness of the organization's different reporting mechanisms. Also, how the members of the organization can access these mechanisms and whether there is a department tasked with handling the reports. It also looks at whether the organization has other strategies, besides its reporting mechanisms, such as independent and internal audits, and that a unified accounting language is used that facilitates audits and the reconciliation of accounts.
 - a. ***Reporting Mechanisms:*** Measures the efficiency of the reporting mechanisms, how accessible these mechanisms are to employees, management, shareholders, clients, vendors, and competitors. It looks to see that reports can be made anonymously, that confessions are encouraged and, among other elements, that reports can be made via phone lines, email, websites, mail, fax, in person, etc. This section also evaluates whether the Compliance department has the resources, authorization and technical capacity to process reports.
 - b. ***Internal, Independent and Senior Management Audits:*** Evaluates the efficiency and efficacy of audits, and also the reputation and technical capacity of the auditors, as well as their moral standing and autonomy.
 - c. ***Account Reconciliation:*** Evaluates how efficient these mechanisms have been or appear to be. It particularly looks at whether the organization uses unified accounting language.
 - d. ***IT Department:*** Evaluates technical capacity, moral standing, the effectiveness of its monitoring processes and its autonomy.
9. ***Improvements and Monitoring of the Integrity Policy:*** This pillar identifies whether the organization has a dedicated committee charged with the application and updating of the Integrity Policy, how often the committee meets and who participates. It also evaluates how the organization updates its policy and how quickly staff are informed.

Appendix 4 of this document contains the 137-question questionnaire that HR Ratings analysts use to determine the preliminary rating corresponding to the Initial Assessment, covering the relevant aspects of the nine pillars.

Result of the Initial Assessment

A partial rating is given to each of the pillars detailed in the section above, after a numeric value between zero and five is assigned to answers to the questionnaire. The HR Ratings model weights the partial ratings, as shown in the following equation:

$$\text{Initial Assessment}_i = \sum_{j=1}^9 \beta_j \text{Pillar}_{ji}$$

Where:

i : Represents the organization i .

j : Represents the nine pillars on which this part of the process is based.

β : Represents the weighting of pillar j in the Initial Assessment.

HR Ratings will continually review the weighting assigned to the response to each question and the weighting for each of the nine pillars.

Final Rating

Following the Initial Assessment, HR Ratings, through the Analysis Committee, may add or subtract notches from the preliminary rating delivered by the Initial Assessment, if the committee decides that adjustment considerations are necessary. The analyst may also bring a recommendation to the committee regarding these adjustments, which will largely refer to risks that are specific to certain industries, countries or regions; to the record of corruption-related events, and to the permeability of the entity's or organization's Integrity Policy.

Other qualitative adjustments may also refer to the risk associated with an upcoming or recent merger or acquisition. The organization must quickly and effectively adopt a new Integrity Policy that responds to the new needs. This risk can be minimized insofar that the supporting documents for the transaction should contain clauses that minimize the transfer of the risk and include procedures to unify the integrity policies of both organizations. It's important to clarify that for events of this nature, HR Ratings will typically require a re-rating or an initial rating.

Lastly, the organization may opt to obtain a Legal Opinion. Because of the current Mexican legislation, such Opinion will focus only on compliance with Article 25 of the FARL. Meanwhile, the HR Rating methodology offers an extensive evaluation that covers the international standard, in addition to assessing the application of these policies. However, the analysis committee will take the Legal Opinion into account, as well as its quality and may, at its discretion, use this as the basis.

This document concludes with four appendices. Appendix 1 provides a detailed description of the Mexican anti-corruption reform, focusing on the Federal Anti-Corruption System Law and the Federal Administrative Responsibility law. Appendix 2 offers statistics from a 2016 study prepared by the ACFE (Association of Certified Fraud Examiners), which analyzed 2,410 cases of fraud in 114 countries. This study helped HR Ratings to weight various concepts in its evaluation model. Appendix 3 contains a description of the rating scale associated with the Integrity Policy or Anti-Corruption Policy. Lastly, Appendix 4 provides the questionnaire that HR Ratings analysts use in the Initial Assessment.

Appendix 1. The Anti-Corruption Reform in Mexico

The goal of the **Federal Anti-Corruption System Law** is to establish the basis for the coordination of the various levels of government to facilitate the prevention, investigation and sanction of administrative infractions and acts of corruption. Also, to form the basis for public policy to combat corruption, and to audit and control resources appropriately.

This law references the creation of different entities to fulfill these goals, based around a Coordinating Committee which is responsible for establishing the coordinating mechanisms between the members of the National System, and which will also design, promote and assess public policy to combat corruption, in accordance with Article 8 of the law. Article 10 then lists the members of this committee as follows:

- One representative from the Citizen Participation Committee, who will chair the committee;
- The head of the Chief Audit Office;
- The head of the Federal Prosecutor's Office on Combatting Corruption;
- The head of the Department of the Civil Service;
- One representative from the Federal Judiciary Council;
- The president of the INAI⁴;
- The president of the Federal Court of Administrative Justice.

Article 15 explains the purpose of the Citizen Participation Committee, which supports the Coordinating Committee in its goals and linking the System to nonprofit and academic organizations. This committee will have five members of certain renown in the subject. Articles 24 and 25 detail the purpose of the Office of the Executive Secretary, a decentralized agency with legal status, own equity and technical autonomy to assist the Coordinating Committee in its functions. This body will have a Technical Secretary and an Executive Commission, comprised of the Secretary and the members of the Citizen Participation Council, without naming the chairman.

Title Four of the law is particularly important, referring to the National Digital Platform. Article 49 stipulates that the platform shall be comprised of the information added by the authorities' members of the System and will have, as a minimum:

- System of equity evolution, declaration of interests and record of tax filings;
- System of civil servants;
- National System of civil servants and civilians who have received sanction;
- System of information and communication for the National System and the Audit System;
- System of public reporting of administrative infractions and acts of corruption;
- System of public information on contracting.

Article 50 states that the Local Systems shall promote the publication of information in an open data format, according to the Law on Transparency and Access to Public Information. The National System shall establish measures to guarantee the stability and security of the platform, and its accessibility.

Title Three of the law refers to the National Audit System, which will establish the coordination mechanisms and actions between its members, to share information, ideas

⁴ Initials refer to the *Instituto Nacional de Transparencia, Acceso a la Información y Protección de los Datos Personales* (National Institute on Transparency, Access to Information and Personal Data Protection).

and experiences to advance the development of the auditing of public resources, in accordance with Article 37 of the law. The members of this system are:

- Chief Audit Office;
- Department of the Civil Service;
- Local chief audit authorities;
- Departments or similar agencies tasked with the internal control of the Mexican states.

Article 38 requires the National Audit System to create an electronic system that will extend the coverage and impact of the auditing of federal and local resources, and also to inform the Coordinating Committee of their progress in auditing these resources. The Governing Committee will design, approve and promote comprehensive policies in this area, and will also design the mechanisms to fulfill the rest of the goals of this System.⁵

The **Federal Administrative Responsibility Law** provides that entities will be sanctioned for gross misconduct committed by persons when they act in the name of the entity or in its representation.⁶ However, it also lists the elements the law considers for an **integrity Policy**. This may exclude the entity from responsibility in the event of an act of gross misconduct⁷ by the person that represents them.

The **Integrity Policy** should include at least the following seven points:

1. An organizational and procedures manual that outlines the chains of command, leadership and the responsibilities of each area in the general structure of the organization;
2. A published code of conduct and which is known to each member within the organization;
3. Effective, constant and adequate systems of control, oversight and internal audits;
4. Systems for reporting internally and to the authorities;
5. Training systems on the organization's integrity policy;
6. Human Resources policies within the organization that will filter individual who would pose a risk to the integrity policy, without generating discrimination;
7. Mechanisms that ensure the transparency and disclosure of their interests.

This would imply that the integrity policy of each organization can be stronger, and may also incorporate elements that would appeal to industries more at risk or to organizations that operate in monopolistic or oligopolistic markets.

Chapter 3 in Title Three lists the possible infractions an individual may commit under this law:

- Article 66 defines bribery⁸;

⁵ For more information on the audit processes, consult the **Mexican Federal Auditing and Accountability Law**.

⁶ Articles 24 and 25 of the Mexican Federal Administrative Responsibility Law are found on page 9.

⁷ Acts of gross misconduct by persons are found in articles 65 to 72, while articles 81 to 83 refer to the sanctions applicable.

⁸ Refers to bribery and similar acts, defined in Article 52, in terms of acts of gross misconduct by civil servants.

- Article 67 defines illicit participation in administrative procedures;
- Article 68 defines influence peddling to induce the authorities;
- Article 69 defines the use of false information and obstruction of the authorities;
- Article 70 defines collusion and international commercial transactions;
- Article 71 defines misuse of public resources;
- Article 72 defines improper hiring of former civil servants⁹.

Title Four lists the possible sanctions that may be imposed on persons¹⁰, while Article 83 states that entities shall be sanctioned by the Civilian Infractions Commission, observing Articles 24 and 25.

For persons:

- Fine in an amount of up to double the benefit obtained or, if no benefit has been obtained, a fine of between 100 and 150,000 Standard Units¹¹;
- Prohibition from participating in public works, acquisitions, leaseings or services for between three months and eight years;
- Losses and damages caused to the Federal Treasury or the equity of the public agencies.

For entities:

- Fine in an amount of up to double the benefit obtained or, if no benefit has been obtained, a fine of between 100 and 1,500,000 Standard Units;
- Prohibition from participating in public works, acquisitions, leaseings or services for between three months and ten years;
- Closure, deferral or prevention from engaging in commercial, economic, contractual or business activities for between three months and three years;
- Dissolution of the enterprise;
- Losses and damages caused to the Federal Treasury or the equity of the public agencies.

Article 81 considers as an extenuating circumstance for entities when the administrative or oversight bodies or the partners report or collaborate with the investigation. And as an aggravating circumstance, that such persons are aware of potential acts of corruption and do not report them. Articles 88 and 89 refer to sanctions for aiding and abetting the offender.

Article 82 states that on imposing sanctions on persons, consideration will be given to the level of participation, recurrence, the economic capacity of the offender, the damage caused or potential, and the benefit or gain obtained from the infraction. Meanwhile, Article 85 states that the sanctions applicable shall be processed as tax obligations, therefore they could affect the credit quality of the entity.

⁹ Refers to undue contracting, defined in Article 59, in terms of acts of gross misconduct by civil servants.

¹⁰ Article 81 of the Mexican Federal Administrative Responsibility Law (page 23).

¹¹ The Standard Unit or *Unidad de Medida y Actualización* is used to calculate sanctions and is constantly adjusted.

In this methodology, HR Ratings starts by determining whether the entity rated follows the **Integrity Policy** of Article 25 of the Mexican Federal Administrative Responsibility Law. However, these points are not the only measures that may be taken to prevent an act of corruption or acts related to asset misappropriation or financial frauds. The section following explores this in greater detail.

Appendix 2. ACFE Statistics

The Report to the Nations on Occupational Fraud and Abuse: 2016 Global Fraud Study of the ACFE offers statistics for 2,410 cases of fraud that took place in 114 countries. Of the cases analyzed, 83.5% involve asset misappropriation, 9.6% financial statement fraud, while corruption was reported in 35.4% of the cases. That the sum of these data is greater than the whole shows that these concepts are typically related. The median loss due to these concepts varies: in corruption cases, the median loss was US\$200,000; for asset misappropriation, US\$125,000, and for financial fraud, US\$975,000. In 23.6% of cases, there was both corruption and asset misappropriation, 1.0% had both corruption and financial fraud, and 9.0% corruption on its own. The median duration of the corruption cases was 18 months, at least until they were discovered. These cases include conflicts of interest, bribes, extortion and accepting gifts.

One of the most important topics addressed in this document has to do with the methods for detecting these illegal activities. As shown in Table 2, tips or anonymous reports is the most successful method of detecting fraud, corruption or misappropriation, followed by internal audits and reviews by senior management. Most reports come from other employees (51.5%), while 17.8% come from clients.

Table 2: Detection Methods

"Tips" (Complaints)	39.1%
Internal Audits	16.5%
Management Review	13.4%
By Accident	5.6%
Account Reconciliation	5.5%
Others	5.5%
Document Examination	3.8%
External Audits	3.8%
Notified by Law Enforcement	2.4%
Surveillance / Monitoring	1.9%
It Controls	1.3%
Confession	1.3%

Source: HR Ratings with data from the ACFE.

The presence of proper controls is strongly correlated with lower losses and early detection.

Table 3: Sources of Detection

Employees	51.5%
Clients	17.8%
Anonymous	14.0%
Other	12.6%
Providers	9.9%
Shareholders / Owners	2.7%
Competitors	1.6%

Source: HR Ratings with data from the ACFE.

These data reveal strategies that have been successful in combating fraud, however they are not necessarily the most common. For example, the most frequent strategy is independent audits of financial statements, used by 81.7% of the companies surveyed, which detected only 3.8% of the cases. Meanwhile, hotlines or reporting mechanisms detected 39.1% of the cases, but only 60.1% of the companies use this tactic. Table 4 shows the most common strategies, independent of their success. The Code of Conduct is used by 81.1% of the companies surveyed, although the rigor and quality of each

code are not measured in this study. The second most successful method for detecting fraud is internal audits, with 16.5% of the cases detected. This strategy is among the most commonly used in the study: 73.7% of the companies have a dedicated department.

Table 4: Frequent tactics against Froud (frequency)

External Audits (Financial Statements)	81.7%
Code of Conduct	81.1%
Internal Audits Department	73.7%
Management Review Certification (Financial Statements)	71.9%
External Audits (ICOFR)	67.6%
Management Review	64.7%
Independent Audits Committee	62.5%
"Hot line"	60.1%
Employee Support Program	56.1%
Froud Training to Employees	51.6%
Froud Training to Managers / Executives	51.3%
Froud Policies	49.6%
Specialized Froud Department	41.2%
Formal risk assessments for Froud	39.3%
Surprise Audits	37.8%
Data Review	36.7%
Work rotations / forced weekends	19.4%
Awards to whomever denounces	12.1%

Source: HR Ratings with data from the ACFE.

This section shows measures that an entity may take to protect itself against acts of corruption committed by a person acting on behalf of the entity. This helps HR Ratings to define the parameters of a successful culture of prevention. The document provides a comparison between the most common measures and the most successful. Table 5 shows the most successful mechanisms in terms of reports, with the most common forms of reporting used. The sum of these is more than the whole, revealing that the person who reports is looking for multiple options.

Table 5: Complaints Mechanisms

Hot Line	39.5%
E-mail	34.1%
Internet (Web Page)	23.5%
Letters	16.7%
Others	9.8%
Fax	1.5%

Source: HR Ratings with data from the ACFE.

Another area that is particularly relevant for HR Ratings is the industry in which the entity rated operates. Banks and Financial Services report a higher rate of infractions, 16.8% of the cases in the study. This is followed by Government and public administration, 10.5%, and the manufacturing industry, 8.8% of the cases. Table 6 shows the frequency by industry, but also offers the median loss by concept. In this case, mining, which is

among the industries with the lowest rate of occurrence in the study, has the largest median loss: US\$500,000. It's important to clarify that, by frequency, the study mentions only the cases analyzed and not the percentage of fraudulent entities in that industry.

Table 6: Industry Risk

Affected Industry	Infraction Frequency	Median Loss (Thousands of USD)
Banking and Financial Services	16.8%	\$192
Government and Public Administration	10.5%	\$133
Manufacturing	8.8%	\$194
Others	7.0%	\$100
Health Services	6.6%	\$120
Education	6.0%	\$62
Sells	4.8%	\$85
Construction	3.9%	\$259
Insurance	3.9%	\$107
Technological	3.4%	\$235
Gas and Oil	3.4%	\$275
Services (others)	3.2%	\$100
Transports	3.1%	\$143
Telecommunications	2.8%	\$194
Services (professional)	2.7%	\$310
Social Services, Religion or Charity	2.4%	\$82
Agricultural	2.0%	\$300
Real Estate	1.9%	\$200
Public Services	1.8%	\$102
Art, entertainment & recreation	1.7%	\$75
Wholesaling	1.6%	\$450
Mining	0.9%	\$500
Editorial	0.7%	\$225

Source: HR Ratings with data from the ACFE.

HR Ratings expects the precautionary measures taken to correspond to the industry in which the entity operates. Exposed industries require strict measures to receive the highest rating in this assessment. Meanwhile, for entities that operate in low-risk industries or markets, certain measures will be sufficient.

Other areas of note from the ACFE document discuss the frequency of fraud according to the size of the company, the gender and age of the offender, and the type of company, public, private, not-for-profit, etc. It also looks at the different red flags that may alert the department of human resources to the most common behaviors of offenders. HR Ratings considers all these factors in its evaluation in terms of the entity's exposure to acts of corruption. The following section details the rating process for this methodology and the rating range that HR Ratings offers in this area.

Appendix 3. Rating Scale

Symbol	Rating Definition
HR PAC 1	The Integrity Policy of the Organization accounts for the highest international standards, with clear and integral manuals, and the integrity culture is spread by managers and executives. The Integrity Policy is has the necessary policies to adapt and transmit the most recent changes through the organization on time.
HR PAC 2+ HR PAC 2 HR PAC 2-	The Integrity Policy of the Organization accounts for international standards, with clear manuals, and the integrity culture is well known through the organization. The Integrity Policy is capable of adapting and regularly transmitted. The sign (+,-) reflects relative strength/weakness within the rating range.
HR PAC 3+ HR PAC 3 HR PAC 3-	The Integrity Policy of the Organization accounts for minimal international standards, although they do not necessarily define relevant concepts. The Integrity Policy has been formalized, but is not well known through the organization. The Integrity Policy is constantly revised, but the process of adaptation and transmission is not efficient. The sign (+,-) reflects relative strength/weakness within the rating range.
HR PAC 4	The Integrity Policy of the Organization is deficient, manuals are not written clearly and do not consider relevant concepts. The Integrity Policy exists, but is constantly and openly contradicted by management. The Integrity Policy has no stablished mechanisms for reviewing, adapting or transmitting through the organization.
HR PAC 5	The Organization does not have an Integrity Policy is deficient, or its Policy hasn't been formalized in a manual or any document. Relevant concepts are not clearly defined anywhere and there is no, or a very weak, compliance culture in the organization. The Integrity Policy exists, but is constantly and openly contradicted by management. The Integrity Policy has no stablished mechanisms for reviewing, adapting or transmitting through the organization, or these mechanisms are deficient and not adequate documented.

Source: HR Ratings.

Appendix 4. List of Information

List of information required for the evaluation of the Organization's Integrity Policy.

List of Information required for the evaluation of an Organization's Integrity Policy.		
A. General Information		
1	Characteristics of the Organization	Organization's name and registered address, administrative address and date in which operations started. Include memorandum and constitutive act.
2	Organization's Background	Brief history of the organization since conception.
3	Corporation, holding or financial group (if any)	Name of the corporation, holding or financial group to which the organization belongs. Name of the corporation, holding, shareholder group or financial group to which the organization belongs to. Add a brief note of the group and managers background, as the structure of the organization. Stablished policies for the holding regarding third parties, particularly public entities.
4	Related Organizations and/or subsidiaries (if any)	Information of each of the related organizations and/or subsidiaries, including the latest fiscal exercise reviews.
5	Operations and Products (if concepts applies)	Description of the products offered by the organization, including operational details. For corporations, include inventories by department and sales revenue; for financial institutions, description of the current and past due portfolio; for organizations with public concessions or services contracts, the related contracts.
6	Business Nature	The CNBV classification according to the business nature. Add a copy of the CNBV authorization (if it exists or if it's relevant) and detail the business model of the organization.
7	Shareholders and Board of Directors	Details of the shareholders that participate in the structure of the Organization. Board of Directors' CV, and detail the board of independent consultants. In case that it is not included in the manuals, the policy for rotation and requirements to participate in each board. Include dividends policies and succession policies for patrimonial shareholders.
8	Members of the Compliance and Risk Departments	Functions, responsibilities and capacities of each member of each department must be detailed, as the general structure. Include members' CVs, as well as policies regarding employment for each department.
9	Structure of the Organization and detailed information of managers and key executives.	Organization chart with a brief description of the functions of each department (in case the manuals do not include them). Include details of managers and key executives, age, CVs, professional background, experience in the organization and in the sector. Include succession plans for key functions, as well as inclusion and diversity plans.
10	Business and Investments Strategies	Detailed report regarding the Organization's objectives and strategies for the future. Include projections for the next two years of operation (if they exists). CAPEX strategies for the next twelve months (regarding maintenance, equipment, systems, new projects, etc.). Due Diligence strategies and process, evaluation of third parties history of sanctions, at organization and individual level.
B. Manual and other documented practices		
11	Code of Ethics (if it exists)	
12	Code of Conduct	
13	General Operations Manual	
14	Human Resources Manual	
15	Internal Control Manual	
16	Operations Manuals (if it exist)	
17	Material and Administration Manuals (if it exists)	
18	Due Diligence Process (if it exists)	
19	Transparency and Information Divulgence Manual (if it exists)	A manual to detail the Information Divulgence Policy, to point the channels of information, and the periodicity of divulgence.
C. Financial Reports		
20	Financial Statement	Refers to the most recent quarterly results, including balance sheet, cash flow and capital changes.
21	Minutes	Normativity Committee minutes, or any minute that reflects any decision related to the Integrity Policy.
22	Due Diligence Findings Report	List of Due Diligence observations and strategies for resolving them. In each case, if applies, minutes that reflects the applied solutions. Also, reports that reflect the results of said strategies must be included.
23	External Audits Results Registration	External Audits results must be included, as the auditor Work Sheet.
24	Internal Audits Results Registration	Internal Audits results must be included, as the auditor evaluation according to its capacity.
25	Registries related to the Strategies of Risk Evaluation (if it exists)	Most include a registry of the principal threats to the Integrity Policy, as a list of strategies related to said threats.
26	Registries of Denouncement Methods	List of denouncement strategies, history of complaints and if they have been processed and/or resolved.

APPENDIX 5. Analysis Questionnaire

Pillar 1 (Culture of Integrity and Compliance of the Organization)

- Does management promote a culture of “compliance”?
- Is the Integrity Policy communicated and disseminated throughout the organization?
- Does management adhere to the culture of “compliance”?
- Are the elements of the Integrity Policy laid out clearly?

Pillar 2 (Code of Conduct and other manuals)

- Is the Code of Conduct clear and concise?
- Can employees, management, shareholders, clients, vendors and the general public easily access the Code of Conduct?
- Is the Code of Conduct revised periodically and can necessary changes be incorporated easily?
- Does the Code of Conduct include policies on gifts?
- Does the Code of Conduct include policies on entertainment and trips?
- Does the Code of Conduct include policies on donations?
- Is the Human Resources Manual clear and concise?
- Can employees, management and shareholders easily access the Human Resources Manual?
- Is the Human Resources Manual revised periodically and can necessary changes be incorporated easily?
- Does the organization have a hiring policy based on aptitude and the record of integrity of the candidate?
- Are checks performed on the candidate through different records, news articles, media, social networks, etc.?
- Does the Human Resources Manual adequately outline this hiring policy?
- Is the General Operations Manual clear and concise?
- Can employees, management and shareholders easily access the General Operations Manual?
- Is the General Operations Manual revised periodically and can necessary changes be incorporated easily?
- Does the General Operations Manual adequately outline the hierarchical structure of the organization?
- Does the General Operations Manual outline the functions of each position within the organization?
- Is the concept of corruption defined in the organization’s codes or manuals?
- Is the concept of misappropriation defined in the organization’s codes or manuals?
- Is the concept of financial fraud defined in the organization’s codes or manuals?
- Is the concept of facilitation payments defined in the organization’s codes or manuals?
- Are other types of corruption schemes defined in the organization’s codes or manuals?
- Do the organization’s manuals contradict applicable law?
- Do the manuals contradict themselves or confuse concepts?

Pillar 3 (Resources, Autonomy and Oversight)

- Does the “Compliance” Department have sufficient authority within the organization?
- Does the “Compliance” Department have sufficient autonomy within the organization?
- Does the “Compliance” Department have sufficient resources: employees and/or IT tools?
- Does the organization have a defined process for enforcing its Code of Conduct, Human Resources Manual and the General Operations Manual?
- Does the organization have a defined process for checking compliance with its Code of Conduct, Human Resources Manual and the General Operations Manual?

Pillar 4 (Strategy for Evaluating Risk)

- Does the strategy identify objectives, persons involved and resources?
- Is there a defined risk tolerance?
- Does the organization have a strategy for documenting and recording risks?
- Does it have a strategy and assign tools for gathering data?
- Are risks identified and cataloged?
- Are corruption, misappropriation or financial fraud risks in specific processes identified?
- Are corruption, misappropriation or financial fraud risks in specific industries identified?
- Are corruption, misappropriation or financial fraud risks in specific countries identified?
- Is there a committee or panel that defines which concepts are included in the catalog?
- Is the probability of occurrence calculated?
- Is the potential impact of an occurrence calculated?
- Is there a methodology to hinder the potential options?
- Is the inherent risk calculated?
- Are there prevention strategies at the organizational level?
- Are there prevention strategies at the process level?
- Do the strategies fit with the context of the industry and the country?
- Are there strategies or a methodology for detecting schemes?
- Are the possible prevention and detection strategies cataloged and classified?
- Are company documents required to be reviewed?
- Are in-person interviews required for both participants in schemes and any employee, management or shareholder?
- Are employees, management or shareholders required to participate in "compliance" surveys?
- Are focus groups and workshops required?
- Is the residual risk at the process level identified and cataloged?
- Is the residual risk at the industry level identified and cataloged?
- Is the residual risk at the country level identified and cataloged?
- Is the interaction between these concepts identified and cataloged?
- Is there a specific response strategy for cases of corruption?
- Is there a specific response strategy for cases of misappropriation?
- Is there a specific response strategy for cases of financial fraud?
- Is that strategy for cooperating with the authorities?
- Do the strategies respond to the context of the industry and/or the country?

Pillar 5 (Training)

- Does the organization offer regular training?
- Does the training include the policies and procedures of the organization, as well as relevant legislation?
- Does the training include case studies?
- Does the training include all employees, management and/or shareholders?
- Are there ongoing reviews of all employees, management and/or shareholders?
- Does the organization have a record of applying integrity policies?
- Besides theoretical aspects, does the training include protocols for applying the Integrity Policy?
- Does the training reflect the responsibilities and risks of each level in the organization?

Pillar 6 (Incentives and Disciplinary Measures)

- Do the organization's codes and/or manuals clearly outline the sanctions applicable in cases of corruption?
- Do the organization's codes and/or manuals clearly outline the sanctions applicable in cases of misappropriation?
- Do the organization's codes and/or manuals clearly outline the sanctions applicable in cases of financial fraud?
- Do the organization's codes and/or manuals clearly outline the sanctions applicable in cases of facilitation payments?
- Do the organization's codes and/or manuals state under which circumstances the authorities will be called in?
- Are there comparable sanctions between employees, management and shareholders?

Are bonuses, raises and/or promotions in any way dependent on the application of the organization's integrity policy?
Are employees, management and/or shareholders permitted or encouraged to participate in the development or updating of the organization's integrity policy?

Pillar 7 (Policy on Interacting with Third Parties, Due Diligence)

Does the organization have a strategy of due diligence for vendors, clients, etc.?
Does the strategy include checking the credentials and the reputation of the entities that interact with the organization?
Does the strategy determine, record and define in advance the intention of the interaction with third parties?
Does the strategy state from the onset the form of payment and define a mechanism for monitoring?
Does the strategy allow or require an independent audit of the third parties or any certification of compliance?
Does the strategy evaluate the degree to which the third party complies with the applicable legislation, independent of the relevant jurisdictions?
Does the strategy evaluate compliance by the third party with the tax laws (possible tax debts or SAT audits)?
Does the strategy of Due Diligence include a review of management and shareholders in terms of their background and reputation?
Does the strategy of Due Diligence define possible red flags and offer a methodology for addressing these?
Does the strategy of Due Diligence include the evaluation of the organization by a third party?
Does the strategy of Due Diligence include a methodology for comments and observations made by third parties?

Pillar 8 (Detection Strategies and Processes)

If there are reporting mechanisms in place, how efficient have they been, or do they appear to be?
Are the reporting mechanisms available to all employees?
Are the reporting mechanisms available to all management?
Are the reporting mechanisms available to all shareholders?
Are the reporting mechanisms available to all clients?
Are the reporting mechanisms available to all vendors?
Are the reporting mechanisms available to all competitors?
Can the reporting mechanisms be used anonymously?
Do the reporting mechanisms permit and encourage confessions?
Does the reporting strategy include phone lines, and if so, how efficient is this mechanism?
Does the reporting strategy include email, and if so, how efficient is this mechanism?
Does the reporting strategy include websites, and if so, how efficient is this mechanism?
Does the reporting strategy include conventional mail, and if so, how efficient is this mechanism?
Does the reporting strategy include fax, and if so, how efficient is this mechanism?
Does the reporting strategy permit in-person reporting, and if so, how efficient is this mechanism?
Is the "Compliance" Department authorized to receive all reports?
Does the "Compliance" Department have sufficient resources to process all reports: personnel and/or IT tools?
Does the "Compliance" Department have the technical capacity to process all reports?

As applicable, how efficient have the internal audits been, or do they appear to be?
As applicable, evaluate the reputation and/or technical ability of the auditors.
As applicable, evaluate the access of auditors to monitor the processes and interactions of the organization.
As applicable, evaluate the moral standing and/or ethics of the auditors.
As applicable, evaluate the autonomy of the auditors.
As applicable, how efficient have the independent audits been, or do they appear to be?
Is the technical reputation of the independent auditors considered, and if so, how?
Is the moral standing and/or ethics of the independent auditors considered, and if so, how?
As applicable, how efficient have the senior management reviews been, or do they appear to be?
As applicable, how efficient have the account reconciliation mechanisms been, or do they appear to be?

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- Is there a clear and unified language used as the minimum standard throughout the organization?
 - Are there internal controls that identify suspicious accounts in a timely manner?
 - As applicable, how efficient has document review been, or does it appear to be?
 - As applicable, how efficient have the mechanisms to notify the authorities been, or do they appear to be?
 - As applicable, how efficient have the oversight/monitoring mechanisms been, or do they appear to be?
 - As applicable, how efficient has the monitoring of the Integrity Policy been, or does it appear to be?
 - As applicable and in terms of monitoring the Integrity Policy, evaluate the reputation and/or technical capacity.
 - As applicable and in terms of monitoring the Integrity Policy, evaluate access to monitoring the processes and interactions of the organization.
 - As applicable and in terms of monitoring the Integrity Policy, evaluate the moral standing and/or ethics.
 - As applicable and in terms of monitoring the Integrity Policy, evaluate the autonomy to perform this function.

Pillar 9 (Ongoing Improvement and Monitoring of the Integrity Policy)

- Is there a committee tasked with evaluating, promoting and updating the Integrity Policy?
- Do employees, management, shareholders, internal auditors and/or the Compliance Department fully participate in this process?
- Does the committee meet sufficiently frequently to review results and/or update policies?
- Does the committee have a methodology to evaluate the effectiveness of the Integrity Policy?
- Do the members of the committee stay apprised of current trends in terms of the different international standards for Integrity Policies?
- Do the members of the committee stay apprised of new sanctions for entities or personnel (set by organizations such as the SEC, the DOJ or local institutions)?
- Are the Updating processes sufficiently flexible to be able to quickly make changes to resolve any problems detected?
- Are changes to the Integrity Policy communicated promptly to employees, management and shareholders?

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