

**GOVERNMENT OF PAKISTAN  
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

*Islamabad, the 5<sup>th</sup> August, 2016.*

**NOTIFICATION**

S. R. O. **729** (I)/2016. - In exercise of powers conferred by sub-section (4) of section 169 read with sections 68, 69, 75, 79, 80, 84 and 151 of the Securities Act, 2015, (Act No III of 2015), the Securities and Exchange Commission of Pakistan is pleased to make the following credit rating companies regulations, 2016, the same having been previously published vide Notification No. 1145(I)(2015), dated the November 17, 2015, and placed on the website of the Commission as required by sub-section (4) of the said section namely:—

**CHAPTER I**

**Preliminary**

**1. Short title and commencement-** (1) These Regulations shall be called the Credit Rating Companies Regulations, 2016.

(2) They shall come into force with immediate effect.

**2. Definitions.-** (1) In these regulations, unless there is anything repugnant in the subject or context, —

- (a) "Act" means the Securities Act, 2015 (Act No. III of 2015);
- (b) "credit rating" means a process of evaluating credit worthiness of a person which expresses its ability or willingness to meet financial obligations in full and on time;
- (c) "credit rating company" means a public company licensed as a credit rating company by the Commission under section 69 of the Act;
- (d) "external member" means any person who has been appointed by credit rating company as member of its rating committee and has no direct or indirect association with the credit rating company or any of its directors and sponsors;
- (e) "equity " means total assets minus total liabilities excluding surplus on revaluation of fixed assets;
- (g) "substantial shareholder" in relation to a credit rating company, means a

person who has an interest in shares of a company;

- (i) the nominal value of which is equal to or more than ten per cent of the issued share capital of the company; or
- (ii) which enables the person to exercise or control the exercise of ten per cent or more of the voting power at a general meeting of the company;

(h) "promoter or sponsor" means a person who has made an application to the Commission to form a credit rating company under these regulations and has contributed initial capital in the proposed company or a person who replaces him; and

(i) "rating" means an opinion regarding securities or a person expressed in the form of standard symbols or in any other standardized manner, assigned by a credit rating company and includes credit rating.

(2) Words and expressions used but not defined in these regulations shall have the same meaning as assigned to them in the Act, the Companies Ordinance, 1984 (XLVII of 1984), the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997) or Central Depositories Act, 1997 (XIX of 1997).

## CHAPTER II

### LICENSING REQUIREMENTS

**3. Prohibitions.** (1) No person shall act as or perform the functions of a credit rating company unless such person is licensed by the Commission under these regulations and the credit rating company licensed under these regulations shall not carry out any other regulated activities as defined in section 65 of the Act:

Provided that a credit rating company already registered under the Credit Rating Companies Rules, 1995 shall be required to obtain license under the Act within three months of coming into force of these regulation subject to payment of renewal fee as prescribed under these regulations: However during the said three months, existing credit rating company shall be deemed to be licensed as a credit rating company under these regulations.

Provided further that credit rating company registered under the Credit Rating Companies Rules, 1995 shall comply with all the requirements of these regulations within a period of one year from the date of coming into force of these regulations.

**4. Eligibility criteria.-** Any person may apply to the Commission for grant of license to act as credit rating company under these regulations, if such person fulfills the following conditions:

- (a) has obtained permission of Commission under regulation (5);

- (b) is public company incorporated under the Companies Ordinance, 1984 (XLVII of 1984);
- (c) meets the financial resources requirement provided under these regulations;
- (d) its promoters or sponsors, proposed directors, chief executive and chairman of the board of directors fulfil the Fit and Proper criteria as specified in Annexure C;
- (e) its promoters or sponsors, substantial shareholders and directors have deposited their shares with Central Depository Company of Pakistan Ltd in an account marked as blocked and such shares shall not be sold or transferred without prior written approval of the Commission:

Provided that the directors holding qualifying shares, maximum up to 2% of total share capital shall be exempt from this requirement;

- (f) its promoters or sponsors or substantial shareholders and directors have given an undertaking that they shall not enter into any agreement for sale or transfer of their shares in any manner without prior approval of the Commission;
- (g) it has entered into a joint venture or technical collaboration arrangement with an internationally recognized credit rating institution:

Provided that the joint venture or technical collaboration arrangement should include comprehensive review of rating policies, procedures and methodologies of the company at least once every three years:

Provided further that the Commission may allow the company to terminate its joint venture or technical collaboration agreement with the international credit rating institution after the completion of five years of such collaboration if it deems that technical expertise have been transferred and retained by the domestic credit rating company;

Explanation.- For the purpose of the clause (g), the internationally recognized credit rating institutions mean foreign credit rating agencies specified by the Commission from time to time as internationally recognized credit rating institutions.

**5. Permission to form a credit rating company.-** (1) A person desirous of forming a credit rating company shall make an application to the Commission as set out in Form I along-with the documents specified in Annexure and receipt evidencing payment of non-refundable processing fee as specified in Schedule I.

(2) The Commission, while considering the application for permission under sub-regulation (1), may require the applicant to furnish such further information or clarification regarding its activities and businesses as it deems appropriate.

(3) The Commission, if it is satisfied that the person seeking permission to form the credit rating company has fulfilled the criteria in terms of these regulation may permit by an order in writing to establish a credit rating company.

(4) The permission granted under sub-regulation (3) shall be valid for a period of six months unless extended for a maximum period of further three months under special circumstances, on the application of the promoters made before the expiry of initial six months. During the validity of this permission, the promoters or sponsors shall get the credit rating company incorporated and submit an application to the Commission for grant of licence, after fulfilling all the conditions specified in these regulations

**6. Conditions for grant of License.-** (1) Subject to compliance with the provisions of the Act, the company shall apply to the Commission for grant of licence as a credit rating company in Form II along with documents specified in Annexure along with non-refundable fee as prescribed in Schedule I.

(2) The Commission shall, after making necessary inquiries and after obtaining such further information, as it may consider necessary, and if it is satisfied that each of its promoters or sponsors, directors, chief executive and chairman of the board of directors fulfills the terms and conditions mentioned in the Fit and Proper criteria given in Annexure-C, grant licence as per Form-A subject to compliance of all of following conditions-

- (a) the company appoints its chief executive who does not hold such office in any other company;
- (b) the company is not part of a group of companies already holding a licence, under these regulations, for credit rating company;
- (c) that its sponsors shall have at all times representation of at least twenty per cent on the board of directors of the company;
- (d) the company has put in place or has the capacity to put in place necessary infrastructure including but not limited to adequate office space, equipment and human resource with sufficient education, experience and expertise to perform the functions of a credit rating company;
- (e) the company shall furnish evidence to the satisfaction of the Commission that the personnel employed by it as senior management officer possess sufficient educational qualifications and professional experience to undertake the credit rating business:

Provided that a new company shall furnish the evidence within 90 days of grant of licence;

- (f) the company, its promoters or sponsors, its substantial shareholders, its chief executive and its directors shall furnish separate undertakings to the Commission that they shall comply in letter and spirit with the requirements of the Act, these regulations and the directions issued by the Commission:

Provided that the Commission, while considering the application for issuance of licence, may require the Company to furnish such further information or clarification regarding its activities and businesses as it deems appropriate:

Provided further that the Company shall, if so required, appear before the Commission for a representation through an officer duly authorized for this purpose in writing by the board of directors of the Company:

Provided further that while deciding to grant licence to a credit rating company, the Commission may seek additional information from other Government agencies/regulatory bodies including obtaining latest CIB Reports from the State Bank of Pakistan of the person and of the companies, firms, sole proprietorship etc. where the person was a chief executive, director (as a major shareholder, sponsor), partner or owner etc;

- (g) all persons subject to fit and proper criteria shall submit an affidavit to the Commission affirming under the oath that the person and the companies, firms, sole proprietorship etc. where the person is a chief executive, director (other than nominee director), substantial shareholder, owner or partner etc. has no overdue payment of any financial institution; and
- (h) the company shall comply with the conditions as set out in these regulations or any direction given by the Commission;

(3) The Commission may also conduct a pre-licence assessment or a visit of the premises of the applicant to verify the genuineness of information submitted and to ensure that it has deployed necessary infrastructure to carry out its functions as a credit rating company in a satisfactory and compliant manner.

(4) The licence shall remain valid for a period of one year unless it is restricted, suspended or cancelled earlier by the Commission.

(5) Without prejudice to the conditions prescribed under sub regulation (2) above, the Commission may, while granting licence, impose such additional conditions, as it may deem necessary.

7. **Renewal of licence.**- (1) A credit rating company shall, one month prior to the date of expiry of its licence, apply to the Commission in Annexure A for renewal of its licence along with all the documents as specified in Annexure B and evidence of payment of non-refundable renewal fee of such amount as prescribed in Schedule I.

(2) A credit rating company shall submit the following information along with the application for renewal of its licence,-

(a) any change regarding the status of the applicant, its promoters or sponsors, directors or any change in controlling interest in the sponsors; and

(b) an undertaking on a stamp paper specifying that the credit rating company, its directors, promoters or sponsors, chief executive and senior management officers are in compliance with all the requirements for renewal of licence.

(3) The Commission upon being satisfied that the applicant continues to meet the requirements for licencing, shall renew the licence for one year and issue a certificate of renewal of licence to the applicant as prescribed in Form B.

(4) Where the application for renewal of licence is made within the provided time but has not been decided by the Commission, the licence of the credit rating company shall continue to be valid until the application for renewal is decided by the Commission.

(5) While renewing the licence of a credit rating company the Commission may, in addition to the criteria laid down for grant of licence, also take into account the past performance of the credit rating company.

8. **Procedure where licence is not granted or renewed.**— (1) The Commission, after giving a reasonable opportunity of hearing to the applicant, may refuse to grant or renew a licence if in the opinion of the Commission such applicant does not fulfill the requirements prescribed under the Act and these regulations and where the Commission after taking into account the facts, is of the view that it is not in the public interest or in the interest of the capital market to grant or renew a license.

(2) The decision of refusal to grant a licence or refusal of renewal of license shall be communicated to the applicant stating therein the grounds on which the application has been rejected.

(3) A credit rating company whose application for renewal of licence is refused by the Commission under sub-regulation (1) shall, from the date of receipt of the decision of the Commission, not act as credit rating company and shall not accept any new rating assignment.

(4) The Commission may allow a credit rating company whose application for renewal of license is refused to continue to complete the rating of all the pending assignments if it considers that doing so is in the interest of the capital market in particular

and the public in general.

**9. Disciplinary proceedings.-** (1) The Commission may take disciplinary action, including suspension or cancellation of license, against the credit rating company in accordance with the provisions of the Act.

(2) The credit rating company may voluntarily apply to the Commission for cancellation of its licence at least three months prior to the date of expiry of its licence.

(3) The Commission may cancel the license of a credit rating company subject to provision of the Act or where the company has amended its Memorandum and Articles of Association to act as a credit rating company.

(4) The Commission may, upon being satisfied that the credit rating company has completed all the formalities for closure of business, accept the application made under sub-regulation (2) and cancel the licence of such credit rating company.

(5) Upon cancellation of license, name of the credit rating company shall be excluded from the register of the regulated persons maintained by the Commission under section 72 of the Act.

### **CHAPTER III**

#### **RESTRICTIONS, DUTIES AND OBLIGATIONS OF CREDIT RATING COMPANIES**

**10. Restrictions on Credit Rating Companies.-** (1) **Shareholding requirement,-**

- (a) No person other than the following shall, directly or indirectly, acquire or hold shares of a credit rating company:
- (i) a financial institution as defined under clause (15A) of sub-section (1) of section 2 of the Companies Ordinance, 1984 (XLVII of 1984);
  - (ii) an insurance company;
  - (iii) a licensed securities exchange;
  - (iv) a company licensed by the Commission to provide depository, clearing or settlement services in the securities market;
  - (v) a foreign credit rating agency recognized by or under any law for the time being in force in the country of its incorporation;
  - (vi) an institution as may be notified by the Commission from time to time; or

- (vii) an individual meeting fit and proper criteria as specified in these regulations.
- (b) Shareholding in a credit rating company shall be subject to the following limits:
  - (i) a single shareholder, directly or indirectly, shall not hold more than twenty percent shares in a credit rating company;
  - (ii) individuals collectively, directly or indirectly, shall not hold more than 25% shareholding in a credit rating company;
  - (iii) foreign credit rating agency may hold up to 100% shares in credit rating company:

Provided that the shareholders of existing credit rating company shall have to immediately comply with the requirements mentioned in sub clause (a) and (b) above if they wish to dispose-off their shareholding.

(2) The credit rating company shall not provide rating services to a company where any of its director is holding a directorship or is a substantial shareholder or is in any way interested in such company subject to rating :

Provided that the directors of the credit rating company, prior to the every meeting of board of directors, shall give an undertaking that they have no conflict of interest with any of the rating mandate being carried out by the company.

Provided further that this restriction shall not apply to a director of a credit rating company nominated as a director of an entity by the Federal Government or a Provincial Government or an institution which is directly or indirectly owned or controlled by the Federal Government or a Provincial Government.

(3) A credit rating company must not accept a rating assignment where a person directly or indirectly, holding more than 10% of share capital of the credit rating company also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or of the entity which issued the instrument subject to rating by the credit rating company.

(4) A credit rating company shall not change its shareholding without prior written approval of the Commission.

(5) No director, officer or employee of the credit rating company shall communicate the information, acquired by him for use for rating purposes, to any other person except where required under law to do so.

(6) A proposed director, chairman or chief executive of the credit rating company shall not assume the charge of office until its appointment has been approved by

the Commission in writing. The application for seeking approval of the Commission shall be submitted by the credit rating company along with the requisite information required under the Fit and Proper Criteria along-with the undertakings specified therein:

Provided that the existing credit rating company shall take prior approval from the Commission for re-appointment of its existing chief executive and its board of directors.

- (7) A credit rating company shall not,-
- (a) rate its own instruments;
  - (b) hold or transact in trading instruments presenting a conflict of interest with credit rating company;
  - (c) rate its associated companies and undertakings or the instruments issued by them;
  - (d) disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer;
  - (e) issue rating for entities or obligations for which it does not have appropriate information, knowledge and expertise; and
  - (f) accept a rating assignment where a customer has terminated a rating contract with its existing credit rating company before its expiry, unless such customer obtains No Objection Certificate from its existing credit rating company or ensures in writing that it shall continue credit rating with its existing credit rating company for a period of at least one year. A clause to this effect shall be included by the credit rating company in each rating agreement;
  - (g) make unsubstantiated claims, in order to induce customers, about qualifications of its professional staff or its capabilities to render certain services or its achievements concerning services rendered to other customers;
  - (h) get involved in acts of frauds, misrepresentations, oppressive or unethical practices, nor shall solicit the customers of any other rating company on implicit or explicit assurance of higher rating or any other undue benefit;
  - (i) publish, circulate or distribute any advertisement or any information which is false, misleading or deceptive;
  - (j) willfully make false statements or conceal any material fact in any document, report or statement furnished to the Commission; and
  - (k) make proposals or recommendations regarding the activities of

rated entities that could impact a credit rating of entity subject to rating

**11. Duties and Obligations of a credit rating company.-** A credit rating company licensed under these regulations shall fulfil the following obligations:

**(A) Conduct of Business:** A credit rating company shall, -

- (a) fulfill its obligations in a fair, efficient, transparent and ethical manner and render high standards of services in performing its functions and obligations;
- (b) engage independent foreign or local experts at least once in every three years to conduct comprehensive review of its rating policies, procedures and methodologies with a view to revamp its existing rating system,; Terms of reference of the foreign or local experts shall be finalized with the prior written approval of the Commission;

Provided that this clause shall not be applicable to a credit rating company which is continuing its joint venture or technical collaboration arrangement as prescribed in regulation 4(g);

- (c) employ analysts who meet the fit and proper criteria annexed as Annexure F to these regulations and are competent and qualified to carry out rating assignments and subsequent monitoring of the ratings;
- (d) ensure that its analysts and all its relevant officers maintain sufficiently high level of analytical and monitoring standards and possess the requisite skill and expertise. A credit rating company must consider the number of entities/instrument/issues that can be effectively covered by a particular analyst, taking into account a broad spectrum of variables, including the size and complexity of the particular issue and the experience and expertise of the analyst;
- (e) employ sufficient human resource which is adequately trained to efficiently perform its functions as credit rating company and arrange/conduct training programs for its employees from time to time for capacity building and skill development;
- (f) assist investors and other users of rating in developing a greater understanding of the rating by disclosing in plain language among other things, the nature and limitations of the ratings and the risk of unduly relying on them to make investment or other financial decisions;

- (g) establish a cell within its organization responsible to communicate with market participants and the public about any questions, concerns or complaints that the credit rating company may receive;
- (h) ensure that the criterion for constitution of the rating committees is capable to promote continuity and to discourage bias in the rating process;
- (i) considering the adequacy of its staffing strength, use its best endeavor to subject its rating analysts to an appropriate rotation mechanism that provides for gradual change in rating teams;
- (j) engage with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;
- (k) upon the occurrence of default of an entity/instrument rated by it, the credit rating company shall prepare a descriptive default note and disseminate the same to the securities exchange, the Commission, State Bank of Pakistan, , Mutual Fund Association of Pakistan, Pakistan Banking Association, NBFIs and Modaraba Association of Pakistan and publish the same on its website for public information. The default notes must describe the definition of default, the reasons for the defaults, historical transitions and the factors overlooked, if any, by the credit rating company;
- (l) publish annually, within one month of calendar year, a comprehensive default and transition study developed in line with methodologies practiced by credit rating agencies globally. The annual default and transition study must contain cumulative default rates (CDRs) and transitions for each rating grade for periods 1, 3 and 5 years
- (m) ensure strong firewalls to prevent disclosure or use of the said non-public information by the related parties or their personnel in cases where a credit rating company is a parent, subsidiary, joint venture partner or affiliate of any organization that might benefit from the non-public information available with the credit rating company;
- (n) formulate necessary code of conduct for its employees regarding handling of the non-public information which should contain as a minimum the requirements set out in Annexure I;
- (o) except as required under these regulations and without obtaining prior written approval of its customers, not share with or disclose to media or any other party including its other customers, any confidential information about its customers, which has come to its knowledge in the course of the rating process;

- (p) clearly indicate the attributes and limitations of each rating and to the extent to which it has verified information provided by the rated entity;
- (q) prohibit its employees and analysts from soliciting money, gifts or favors from anyone with whom the credit rating company conducts business;
- (r) ensure that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest;
- (s) observe a disengagement period of minimum two years between the notification of the unsolicited rating and acceptance of the assignment of the solicited rating, where an unsolicited rating becomes a solicited rating;
- (t) ensure that any advertisement is written in clear language and is not such which may prejudice interest of any person or investors in general;
- (u) maintains principal of integrity in seeking rating business; and
- (v) obtain prior approval from the Commission for offering of any new rating product/services.

**(B) Internal control, compliance policies and procedures: A credit rating company shall, -**

- (a) have internal control procedures or policies and financial and operational capabilities which can be reasonably expected to protect its operations, its customers;
- (b) develop a human resource policy encompassing the recruitment, selections compensation, promotions, , trainings, and other human resource related matters;
- (c) establish a human resource committee headed by an independent director of the credit rating company, to ensure implementation of human resource policy and manual for its employees;
- (d) establish and maintain comprehensive risk management systems and controls to enable it to identify, assess, mitigate, control and monitor risks arising from its activities;
- (e) frame policies and procedures to ensure its own and its employees' compliance with the regulatory requirements and inculcate a culture

of compliance of the regulatory requirements through ongoing education and training of its employees;

- (f) establish policies, procedures and controls which should require proper disclosures by employees and directors regarding their actual or potential conflict of interest to the compliance officer or the credit rating company;
- (g) establish policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse;
- (h) establish policies and procedures for an analyst who intends to join an entity of which he/she was been part of the rating process ;
- (i) frame and implement a whistle-blower protection policy encouraging all employees to intimate the compliance officer of any unethical practice or misconduct relating to the credit rating, by another employee of the credit rating company that came to his knowledge;
- (j) ensure that all policies are duly approved by its board of directors and shall define clear lines of responsibility, authority and tasks that are adequately assigned to employees;
- (k) ensure that all policies are widely disseminated for compliance by all employees and is reviewed for appropriateness and sufficiency by the competent authority at least once every year;
- (l) ensure that a periodic or annual review of all policies and assessment of overall level of compliance of the credit rating company is carried out by the internal audit department, which reports directly to the board of directors or its audit committee;
- (m) promptly investigate, in the event of a misconduct or a breach of the policies, procedures and controls, and take appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s);
- (n) ensure that all reported events are investigated promptly by the compliance officer in accordance with the provisions provided in the whistle-blower policy; and
- (o) ensure that all investigations are completed within the time period specified in the whistle-blower policy;

**(C) Quality of the rating process. A credit rating company shall,-**

- (a) develop well defined rating criteria, methodologies and procedures for solicited and unsolicited credit ratings for each class of entity,

instrument and issue and such rating criteria, methodologies and procedures shall act as guiding principles for the analysts employed by the credit rating company;

- (b) proactively update the criteria, methodologies and procedures taking into account changes in the market environment;
- (c) review the rating criteria and methodologies at least once in a year and update accordingly, if required;
- (d) ensure that its analysts follow the defined rating criteria, methodologies and procedures carefully, uniformly and in a consistent manner;
- (e) establish a rating committee consist of at least five members and duly approved by Board of directors;
- (f) ensure that the members of rating committee including external members are fit and proper as prescribed in Annexure C;
- (g) ensure that at least one-third or two members of the rating committee, whichever is higher, including the Chairman of the committee are external members who are appointed with the prior approval of Commission to ensure objectivity and effectiveness of the rating committee;
- (h) ensure that any remuneration/fee arrangement for external member, if any have been duly approved by its board of directors and shall not be construed in any manner as employment of rating company;
- (i) ensure that the remuneration/fee arrangement for external member of the rating committee shall not be linked to the business performance of the credit rating company and must be arranged so as to ensure their independence ;
- (j) ensure that rating committee shall assign and decide on each credit rating and all rating decisions, including decisions regarding changes in the ratings;
- (k) ensure that the quorum of the rating committee shall be at least three members including one external member as chairman of the rating committee;

Provided that if the quorum is not present due to an emergency, the chairman of the rating committee, in consultation with at least one member of the rating committee, may take decisions and record in writing the decisions and the circumstances of the emergency and circulate the document to other members of the

rating committee;

- (l) ensure that the rating committee act with due care, skill and diligence in carrying out its duties and responsibilities;
- (m) ensure that rating decisions are consistent with the methodologies, procedure and process used in the rating;
- (n) ensure that proper record of meetings of rating committee including detailed minutes and its rating decisions are maintained along with rational for assigning the rating, which shall be available for review and inspection by the Commission
- (o) keep the following records in support of each credit rating and review thereof:
  - (i) summary of discussions with the issuer, its management, auditors and creditors which have a bearing on the credit rating;
  - (ii) decisions of the rating committee, including voting details and notes of dissent, if any, by any member of the rating committee; and
  - (iii) where a quantitative model is a substantial component of the rating process, rationale for any material difference between the rating implied by the model and the rating actually assigned.
- (p) ensure that record of all ratings whether active, withdrawn or matured, is maintained for a period of not less than ten years and in case of instrument rating/grading, the time period of ten years shall be reckoned from the date of maturity of such instrument;
- (q) establish a set of transparent policies, controls and procedures in order to ensure consistency of its rating operations;
- (r) assess whether the existing rating criteria, methodologies and procedures for ratings of structured products are appropriate when the risk characteristics of the assets backing a structured product change materially and where the complexity or structure of any structured product or the lack of information about the assets backing the structured product raise the questions as to whether the credit rating company has the capability to determine a credible rating for the security, the credit rating company should refrain from assigning a rating;
- (s) establish a criteria group, comprising of at least two senior analysts having minimum relevant experience of at least five years and headed

by CEO, which shall be responsible for formulating and reviewing such criteria, methodologies and procedures as specified in Annexure G to these regulations and such group shall ensure that all new ratings criteria, methodologies and procedures and subsequent amendments therein have been made after careful and thorough analysis from both analytical and market perspective; and

- (t) the analysts shall submit their initial analysis reports along with the initial indicative ratings to the rating committee.

**(D) General: A credit rating company shall-**

- (a) acquire and maintain membership of the regional or international association of credit rating agencies and follow their best practice guidelines;
- (b) unless provided otherwise in these regulations, encourage to adopt all the requirements of the Code of Conduct for credit rating companies issued by International Organization of Securities Commissions;
- (c) encourage to adopt the Code of Corporate Governance issued by the Commission for listed companies;
- (d) take reasonable measures to protect its property and records belonging to or in possession of the credit rating company from fraud, theft or misuse;
- (e) participate in public awareness programs with other market participants for the development of the capital market.

**(E) Submission of ratings reports and other information to the Commission.-**

- (a) A credit rating company shall furnish to the Commission such other documents, information or explanation relating to its affairs as the Commission may, at any time, by order in writing, require;
- (b) A credit rating company shall report to and file with the Commission following information/documents,-
  - (i) a copy of the rating criteria, methodologies and policies and any subsequent modification or change therein as and when it takes place;
  - (ii) intimation regarding designation of the compliance officer within seven working days of the date of such designation;
  - (iii) intimation of cessation of employment of the compliance officer within seven working days of the date of such

cessation; and

- (iv) certified true copy of the minutes of the meetings of its board of directors and that of the general meetings within seven days of the confirmation of the same.

**(F) Appointment of the Compliance Officer-**

- (a) The credit rating company shall designate an officer as a compliance officer who shall be responsible for monitoring compliance of the credit rating company with the applicable regulatory regime;
- (b) In order to enable the compliance officer to discharge his duties properly and independently, the credit rating company shall ensure that:
  - i. the compliance officer has the necessary authority, resources and access to all the relevant information; and
  - ii. the compliance officer has direct line of reporting, relating to his duties as compliance officer, to the board of directors of the credit rating company, in addition to his regular reporting on carrying out of his routine duties to the senior management.
- (c) The credit rating company shall ensure that compliance officer shall not participate in rating operations of the company and shall be responsible for monitoring compliance by the credit rating company with the applicable regulatory regime, particularly compliance relating to dissemination, reporting and filing, and implementation of the policies relating to rating processes and employees, and redressal of customers' and other stakeholders' grievances and complaints;
- (d) The compliance officer shall immediately report any non-compliance with these regulations to the board of directors shall immediately take steps to ensure compliance with the regulatory regime;
- (e) Where the credit rating company fails to take steps as required under sub-regulation (c),the compliance officer shall immediately inform to the Commission of the non-compliance by the credit rating company;
- (f) The compliance officer shall fulfil the fit and proper criteria and must have at least three years of experience in audit, finance or compliance function;

- (g) The compliance officer shall prepare quarterly compliance reports which shall be submitted to the board of directors of the credit rating company.

**12. Independence and Conflict of Interest:** (1) The credit rating company shall ensure that;

- (a) at least one third of its board of directors are independent directors;

Explanation: For the purpose of this clause, the expression "independent director" means the same as provided in clause (i) (b) of the Code of Corporate Governance for listed companies;

Provided that in case of any ambiguity in determining independence of a person for the purposes of these regulations, the decision of the Commission shall be final and binding upon the credit rating company.

Provided further that the existing credit rating company shall ensure compliance with above stated clause latest by January 31, 2017 or at the due date of AGM whichever is earlier;

- (b) an independent director shall be appointed in the following manner:
  - i. a credit rating company shall, solely or jointly with other licenced persons, maintain a panel of fit and proper persons suitable for appointment of independent directors;
  - ii. a minimum of two names from the panel to be maintained under clause (i) above shall be submitted by the credit rating company to the Commission for each vacancy, for its approval. The credit rating company shall ensure that such persons are selected from relevant diverse fields of work with appropriate qualification and experience;
  - iii. the Commission may, if satisfied that a person is suitable for appointment as independent director grant its approval for the appointment of the selected person as independent director by credit rating company:

Provided that where the Commission is not satisfied about the suitability of the proposed persons for appointment as a director, it may refer the matter back to the credit rating company for proposing other names after following the due process.

- iv. unless provided otherwise, the term of the independent directors so appointed shall be the same as that of the other directors;
- v. an independent director may resign or be removed by the board of directors of the credit rating company with prior written approval of the Commission if such persons fail to meet fit and proper criteria:  
Provided that the Commission may direct credit rating company to remove an independent director from his/her office if the Commission

consider it appropriate to do so in public interest or in interest of capital market.

vi. any vacant position of an independent director shall be filled in the similar manner as provided for initial appointment of an independent director

(c) At least one independent director shall be present in the meeting of board of directors of a credit rating company to constitute the quorum;

(d) The chairman of the board of directors of a credit rating company shall be from amongst the independent directors;

(2) The credit rating company shall ensure that;

(a) directors on its board shall not be involved in the rating process and shall provide an undertaking to this effect at the time of appointment as directors on the board:

Provided that CEO being deemed director, may be part of the rating committee subject to the condition that his shareholding, directly or indirectly, in the credit rating company is less than 5% of the share capital of the company;

(b) its rating committee is able to perform its duties free of undue intervention or influence from its shareholders, its management or its board of directors;

(c) it has not appointed any individual as a member of a rating committee who has or is perceived to have a business development function of the credit rating company; or who initiates or participates in a discussion regarding fee or payment with any customer of the credit rating company;

(d) it shall not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities;

(e) it has included a statement in each rating report that the credit rating company, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating done by them. In case there is any conflict of interest, the credit rating company shall disclose the fact in the respective rating report, nature of such conflict of interest and its impact on the rating grade assigned;

(f) it has disclosed in the rating report if a shareholder directly or indirectly ,holding 10% or more of the share capital of credit rating company also holds

directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by the credit rating company;

- (g) it has made the reporting lines and compensation arrangements for its employees in a way to eliminate or effectively manage actual and potential conflicts of interest. An analyst must not be compensated on the basis of revenue generated from the entities rated by him;
- (h) it shall conduct periodic reviews of compensation policies for analysts and other employees who participate in or who might otherwise have an effect on the rating process to ensure that these policies do not compromise the objectivity of the credit rating company's rating process;
- (i) the rating assigned to an entity or instrument should not be affected by the existence of a business relationship between the credit rating company and the entity or any other party, or the non-existence of such a relationship;
- (j) an analyst or any of his family members have any interest in a rating, shall not be involved in such rating process;
- (k) the analysts and members of the rating committee including the external members have submitted statement about all the conflicts of interest, including those of their family members, if any, to the officer designated by the credit rating company for the purpose; and

Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee;

- (l) the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes.

**13. Contents of the Rating Agreement.-** (1) A credit rating company shall not accept any rating assignment except through a rating agreement in writing and the rating agreement must contain all the necessary provisions including but not limited to the following:

- (a) requiring the customer to provide the credit rating company true, accurate, complete, and updated information to enable it to arrive at and maintain a fair and true rating of the customer and/or the instrument, as the case may be;
- (b) empowering the credit rating company to call and obtain, any time during the validity period of the agreement or during the tenure of the instrument, all such information as deemed necessary by it for conducting effective and

- timely review of the rating assigned;
- (c) a clause stipulating rating withdrawal, or cancellation of agreement or any other measures to be taken by a credit rating company in case of non-provision of information by the client.
- (d) consent of the customer authorizing the credit rating company to conduct review of the rating any time during the validity period of the agreement or during the tenure of the instrument;
- (e) a clause requiring the customer to obtain NOC from its existing credit rating company in case of termination of rating agreement prior to its expiry or ensures in writing that it shall continue credit rating with its existing credit rating company for at least one year;
- (f) a clause clearly stipulating the beginning date and expiry date of the rating agreement;
- (g) a clause stipulating the fee to be charged by the rating company including the initial fee and surveillance fee if any, along with their payment schedule.
- (h) rights and obligations of each party to the agreement;
- (i) nature of the rating i.e. entity rating, instrument rating or both; and
- (j) tenure of the rating.

**14. Rating and other Disclosures. -** (1) The credit rating company shall immediately disseminate all ratings assigned by it, whether solicited or unsolicited, except the private ratings, by way of press release through a news agency and ensure that these are disseminated through at least one English and one Urdu language daily newspaper having nationwide circulation.

(2) The credit rating company shall immediately disseminate all ratings to the securities exchanges, the State Bank of Pakistan, the Commission, Mutual Fund Association of Pakistan, Pakistan Banking Association, NBF1 and Modaraba Association of Pakistan.

(3) The credit rating company shall maintain an official website and disseminate on it, inter-alia the following:

- (a) latest pattern of shareholding, showing names of the shareholders, number and percentage of shares held by each shareholder or group of shareholders of the credit rating company;
- (b) names of shareholders holding ,directly or indirectly,10% or more share in the credit rating company;
- (c) changes in the pattern of shareholding since inception. The changes shall reflect names of the previous and subsequent shareholders along with number and percentage of shares held;
- (d) all criteria, methodologies and procedures regarding the rating including both solicited and unsolicited credit ratings and subsequent modification, if any, therein;

- (e) the rating definition and the symbol related thereto;
- (f) latest rating report and rating press releases, except the reports and press releases relating to private ratings, for at least last five years, containing:
  - (i) names and contact detail of the rating analysts;
  - (ii) purpose of the rating;
  - (iii) in case of secured instrument, quantum and nature of security, nature and book value of the assets backing the instrument;
  - (iv) in case of structured finance products, information about the originator like its name, its principle business, its brief financial and operating position for the last five years, nature of defaults and delay, if any, in repayment of any financial obligation during the last five years, nature and value of assets backing the instrument, detail of guarantee, if any, or any other additional security arrangement, transaction structure, collection mechanism etc.;

[Explanation: Structured finance products mean the instruments resulting from the securitization transactions.]

  - (v) in case of unsolicited ratings, the fact that it is unsolicited, the extent of participation by the entity/issuer, its management, its creditors and its auditors in the credit rating process;
  - (vi) assumptions and rationale for the rating assigned and the risk factors considered in the assessment;
  - (vii) the probability of default in case of unforeseen event or any inherent risk;
  - (viii) where relevant, the benchmarks used, any sensitivity analyses performed and its results, comparative analyses made with other industries or companies and credit enhancements;
  - (ix) history of the rating for at least five years in case of entity rating and for the full tenure in case of instrument rating; and
  - (x) a statement by the analysts that rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be.
- (g) all criteria, methodologies, policies and disclosures as prescribed at Annexure G and Annexure H; and

- (h) all rating review reports of the outstanding issues within five days of the notification of the review .

**15. Fees and Charges.-** (1) The credit rating company shall prepare a list of fees and charges relating to its rating services and disseminate the same on its website.

(2) The list of fees and charges must contain all the rating services rendered and functions performed by it and the rate of fee for each such service and function.

(3) The fee may be provided in terms of percentage, in the form of range (i.e. minimum and maximum) or in the form of fixed amount for each service/function.

(4) The credit rating company shall provide the list of fee charged against national or social cause projects.

**16. Private Ratings.-** (1) The credit rating company may carry out private ratings which shall not be publicly disclosed.

(2) The credit rating company policy for private ratings must clearly articulate non-publication and non-dissemination of the private ratings and confidentiality of the related information.

(3) Whenever a private rating has been assigned by a credit rating company, a disengagement period of two years shall be observed for undertaking any public rating assignment in respect of the entity to which the private rating was assigned.

**17. Monitoring and review of the ratings.-** A credit rating company shall:

- (a) monitor all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer;
- (b) review all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so;
- (c) initiate immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating;
- (d) engage with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; and
- (e) if a credit rating company discontinues monitoring a rating for a rated

entity or security it should either withdraw the rating or disclose such discontinuation to the public or to its subscribers (depending on the rating company's business model) immediately. A publication by the credit rating company of a rating that is no longer being monitored should indicate the date the rating was last updated or reviewed, the reason the rating is no longer monitored, and the fact that the rating is no longer being updated.

**18. Operational and Infrastructure Requirements.-** (1) A credit rating company shall have adequate infrastructure and information systems to provide reliable rating services and maintain its rating operations and facilities with adequate security, system capacity and contingency arrangements.

(2) A credit rating company shall ensure that all its dealings and transactions, commercial or otherwise, with its shareholders, including the holding company, if any, are periodically reviewed by its board of directors to ensure that such dealings and transactions are undertaken in a fair and justifiable manner without having any adverse impact on the rating process and its quality.

**19. Transparency and Timeliness.-** (1), A credit rating company shall, where feasible and appropriate, prior to issuing or revising a rating inform the issuer of the critical information and principal considerations upon which a rating will be based and provide the issuer an opportunity to clarify any likely factual misperception or other matter that the credit rating company must know in order to produce a fair rating.

(2) The credit rating company shall indicate with each of its ratings when the rating was last updated and each rating announcement should also indicate the principal methodology that was used in determining the rating and where a description of that methodology can be found:

Provided that where the rating is based on more than one methodology, or where a review of only the principal methodology might cause investors to overlook other important aspects of the rating, the credit rating company shall explain this in the rating announcement and explain how the different methodologies and other important aspects factored into the rating decision can be found; and

(3) A credit rating company shall conduct industry specific studies, at least on annual basis, and disseminate findings of such studies on its website and to the Commission within five working days. The report should contain macro-economic view followed by the specific industry and then any specific event related to that industry;

#### **CHAPTER IV ACCOUNTING AND FINANCIAL RECORD**

**20. General.-** These obligations and duties are in addition to the requirements of the Act, the Companies Ordinance 1984, the rules and regulations made thereunder and any directives issued thereunder in relation to books and records.

**21. Requirements in respect of accounting and other records.-** (1) A credit rating company shall keep accounting and other records as required under the Companies Ordinance, 1984, and the Act.

- (2) A credit rating company shall also maintain the following records:
- (i) information provided by each of the customer;
  - (ii) correspondence with each customer
  - (iii) ratings assigned to the entities and securities including upgrades and downgrades in the ratings so assigned;
  - (iv) minutes of the meetings of the rating committee, deliberations and analysis used to reach the rating decision;
  - (v) fee charged to each customer together with the calculations; and
  - (vi) rating criteria, methodology and procedures

**22. Requirements in respect of annual financial statements.-** (1) A credit rating company shall prepare for each financial years annual financial statements as required under the Companies Ordinance, 1984 and shall make them available on its website.

(2) A credit rating company shall disclose in its audited annual financial statements, the following information:

- (a) its total revenue from rating services and non-rating services separately;
- (b) customer-wise non-rating revenue of the credit rating company or its holding or subsidiary companies, if any, in case where non-rating revenue of the credit rating company or its holding or subsidiary companies, if any, from any single customer or group is ten percent (10%) or more of its or its holding or subsidiary companies' total revenue; and
- (c) names of the customers who along with their associates contribute ten percent (10%) or more of the total revenue of the credit rating company or its holding or subsidiary companies.

**23. Commission's power to require returns.-** (1) The Commission may by written notice require a credit rating company to submit to the Commission such periodic returns as it may direct.

**24. Annual financial statements, etc. to be submitted to Commission.-** A credit rating company shall submit, within four months after the end of each financial year, its auditor's report to the Commission along with –

- (a) its annual financial statements; and
- (b) a confirmation in writing by the credit rating company that it is in compliance with the Act and the rules and regulations made thereunder.

25. **Financial resource requirement.**- Every credit rating company shall maintain at all times a minimum equity of Rs.50 million.

26. **Savings and Repeals.**- (1) Save as provided in Regulation 26(2), the Credit Rating Companies Rules, 1995 ("the Rules") and the Code of Conduct issued under the Rules, issued vide letter dated January 13, 2014 are hereby repealed.

(2) Save as otherwise specifically provided, nothing in these Regulations shall affect or be deemed to affect anything done, action taken, investigation or proceedings commenced, order, relaxation granted unless withdrawn, appointment, conveyance, mortgage deed, document or agreement made, fee paid or accrued, resolution passed, direction given, proceedings taken or instrument executed or issued, under the repealed Rules and any such thing, action, investigation, proceedings, order, appointment, conveyance, mortgage deed, document, agreement, fee, resolution, direction, proceedings or instrument shall if in force at the coming into force of these Regulations and not inconsistent with any of the provisions of these Regulations, continue to be in force, and have effect as if it were respectively done, taken, commenced, made, directed, passed, given, executed or issued under these Regulations.

**FORM I**  
*[see regulation 5(1)]*

**APPLICATION FOR PERMISSION TO FORM A CREDIT RATING COMPANY**

Dated: \_\_\_\_\_

To

The Securities and Exchange  
Commission of Pakistan,  
Islamabad.

Dear Sir,

We hereby apply for grant of permission under regulation 5 of the Credit Rating Companies (Regulation), 2016, to form a Credit Rating Company under the name and style of \* \_\_\_\_\_  
\_\_\_\_\_

The information and documents as required in the Annexure to this form duly verified and signed by all promoters and proposed directors along with five spare copies of this application and an affidavit by them as to the correctness of the details is submitted.

We undertake to keep this information up to date by communicating changes or modifications therein within fourteen days of such changes or modifications.

A receipt of rupees [(Rs. \_\_\_\_\_)] being the processing fee, deposited in \_\_\_\_\_ on ----  
\_\_\_\_\_ is enclosed.

Yours faithfully,

-----  
Verification by  
Oath Commissioner.  
Name of the company

## ANNEXURE TO FORM I

[see regulation 5]

### INFORMATION TO BE SUPPLIED FOR OBTAINING PERMISSION TO FORM A CREDIT RATING COMPANY AND SUBSEQUENT CHANGE IN DIRECTORSHIP AND CHIEF EXECUTIVE

1. Full name, former name if any, father's or husband's name, nationality, residential and business address, national tax number, present occupation of each sponsor, proposed director, proposed chief executive and proposed chairman of the Board. (Institutional sponsors shall mention their names and addresses only instead of giving all these particulars of their nominee directors).
2. Names and addresses of companies, firms and other organizations of which the aforesaid sponsors, proposed chief executive and proposed chairman are or have been directors, partners or office holders during the last ten years. Copies of annual accounts of such companies and firms for the last three years along with summary of their paid-up share capital, free reserves, profit after tax and dividend payment to be provided.
3. Financial standing, educational as well as professional qualifications and experience of persons mentioned in paragraph 1 above, supported by documentary evidence.
4. Percentage of capital, each sponsor proposes to contribute in the proposed company.
5. Feasibility report of the proposed company.
6. Names of the bankers of the sponsors' along with their account numbers.
7. Draft of the Memorandum and Articles of Association.
8. Affidavit from each person mentioned in paragraph 1 above, stating that-
  - a) he has not been associated with any illegal banking business, deposit taking or financial dealings;
  - b) he and companies in which he is a director or substantial shareholder have no over-due loans or installments outstanding towards banks or other financial institutions;
  - c) neither he nor companies in which he is a director or substantial shareholder has defaulted in paying taxes as on the date of application;
  - d) he has not been promoters or sponsor, director or chief executive of a defaulting cooperative finance society or finance company;

- e) he has never been convicted of fraud or breach of trust or of an offence involving moral turpitude or removed from service for misconduct; and
- f) he has neither been adjudged an insolvent nor has defaulted in making payments, to his creditors;

9. Latest CIB report of the above person

APPLICATION FOR OBTAINING LICENCE TO FORM CREDIT RATING COMPANIES

To

The Securities and Exchange Commission of Pakistan,  
Islamabad.

Dear Sir,

1. We hereby apply for licence of ....(Name of Credit Rating Company)..... under section 68 of the Securities Act, 2015.
2. Certified true copies of all the documents specified in Annexure to Form II of the Credit Rating Companies Regulations, 2016 are enclosed.
3. Original receipt of the bank for the fee of Rs.....being the licence fee is enclosed.

Yours faithfully,  
Signature of the Chief Executive

**Information and Documents to be provided along-with application for licence as a credit rating company**  
*[see regulation 6]*

**1. General and business information:**

- 1.1. Brief history of the applicant containing at least name of the applicant, date and place of its incorporation, date of commencement of business, names of promoters or sponsors, names of senior management officers, group structure, if any, length of experience as securities broker, if any.
- 1.2. Address of the registered office of the applicant (postal address, postal code and telephone, fax numbers.)
- 1.3. Mailing address of the applicant (postal address, postal code, telephone number, fax numbers and e-mail address of the concerned officer of the applicant.)
- 1.4. Previous experience of the promoters/directors in the credit rating field.
- 1.5. Proposed rating methodology and scale of rating.
- 1.6. Details of technical collaboration agreement and/or joint venture with an internationally recognized credit rating company and a copy of such an agreement and documentary evidence in respect thereof.
- 1.7. Name and designation of the compliance officer along with contact details i.e. postal address, postal code, telephone number, fax number and e-mail address.
- 1.8. Location and quantum of space available for safe custody of record specified in the Credit Rating Companies Regulations, 2016
- 1.9. Details of outstanding legal proceedings, if any, initiated against the applicant, its directors or senior management officers by the Commission or any other regulatory authority.
- 1.10. Details in case the applicant, its promoters or sponsors, directors, substantial shareholders or senior management officers have been declared insolvent or bankrupt, or declared defaulter by any authority.
- 1.11. Details of penal actions, if any, taken against the applicant, its promoters or sponsors, directors, substantial shareholders or senior management officers during the last three years by the Commission or any other regulatory authority.

1.12 In case any associated company of the applicant is already licenced under the Securities Act, 2015, the following details shall be provided, namely:-

- (i) name of such associated company;
- (ii) details of warning notices, if any, issued to such associated company by the Commission;
- (iii) details of legal proceedings, if any, initiated against such associated company by the Commission or any other regulatory authority; and
- (iv) penal action, if any, taken against such associated company by the Commission during the last three years.

2. Details of infrastructural facilities (to be used for performing the functions of a credit rating company):

2.1 Computer systems installed:

- (a) hardware configurations; and
- (b) software used

2.2 Data processing capacity:

- (a) available infrastructure (computers and other electronic equipment used for data processing and communication);
- (b) available manpower; and
- (c) office space (mention extent of area in square feet available)

3. Other information:

3.1 Details as per following format of all pending disputes in which the applicant is a party:

- a) Name of the party
- b) Name and place of court/tribunal where dispute is pending
- c) Amount involved
- d) Pending since
- e) Date of last hearing
- f) Decision at last hearing

3.2 List of civil and criminal offenses in which the applicant or any of its promoters

or sponsors, directors or senior management officer has remained involved during the last three years.

3.3 Any other information considered relevant to the business of the credit rating company.

3.4 Any significant awards or recognition, collective grievances against the applicant.

**4. List of documents to be provided along with application:**

4.1 Copy of memorandum and articles of association of the applicant duly certified from the concerned company registration office (CRO) containing copy of the certificate of incorporation and that of the certificate of commencement of business, duly certified from the CRO concerned.

4.2 Copy of Forms 3, 27, 28 and 29 of the applicant duly certified from the CRO concerned.

4.3 Audited accounts for the last three years and latest half yearly and quarterly accounts, where applicable.

4.4 Copies of documents evidencing compliance with the financial resource requirements specified in the Credit Rating Companies Regulations, 2016.

4.5 Profile/Fit and Proper related documents of senior management officers and directors of the applicant [name, qualification, experience and date of appointment, directorship in other companies, names of such other companies and date of appointment as director in such other companies].

4.6 Any other information/document as required by the Commission.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
LICENCE AS A CREDIT RATING COMPANY

No.

Islamabad, the .....201\_\_

Registration No.....

The Securities and Exchange Commission of Pakistan having considered the application for grant of licence under section 68 of the Securities Act, 2015 by..... (Name of the company).... and being satisfied that the said company is eligible for a licence and that it would be in public interest and in the interest of the capital market so to do, hereby grants, in exercise of the powers conferred by section 69 of the Securities Act, 2015 grants a licence to .....(name of the credit rating company).... subject to the provisions of the Securities Act, 2015 and the rules and regulations made thereunder.

2. This licence is valid up to one year from the date of issuance.

Signature of the Officer

FORM OF APPLICATION FOR RENEWAL OF LICENCE  
AS A CREDIT RATING COMPANY

To

The Securities and Exchange Commission of Pakistan,  
Islamabad.

Dear Sir,

1. We hereby apply for the renewal of the licence of .....  
..... (Name of the credit rating company) under section 69 of the  
Securities Act, 2015.
2. The existing licence is due to expire on .....
3. Original receipt of the bank for the fee of Rs.....being the renewal fee  
is enclosed.
4. Certified true copies of all the documents specified in Annexure B of the Credit Rating  
Companies Regulations, 2016 are enclosed.
5. It is requested that the licence be renewed for a period of one year.

Yours faithfully,  
Signature of the Chief Executive

**Information and Documents to be provided along-with application for renewal of licence as a credit rating company**

The following details shall be provided along-with application for renewal by a credit rating company along with the relevant supporting documents for the last one year:

1. Details of the non-compliance by it, if any, with any provision of the applicable laws including the Act and rules or regulations made thereunder.
2. Details of the non-compliance by it, if any, with any of the licensing conditions, if any.
3. Details of any penal or disciplinary action initiated or taken against the applicant, its promoters or sponsors, directors, substantial shareholders or senior management officers by any regulatory authority or government agency/department.
4. Details of legal proceedings, if any, initiated against it and penal actions taken against it and penalty imposed by the Commission or any other regulatory authority.
5. Details of changes made, if any, in the object clause of its memorandum of association or other constitutive documents.
6. Number and details of customer complaints received, if any and their redressal status.
7. Declaration that it is in compliance with the post licence requirements as prescribed in these regulations.
8. Copy of the last annual audited financial statements along-with latest quarterly or half yearly financial statements.
9. Copies of documents evidencing continuous compliance with the requirements of financial resource requirements specified in the regulations.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
CERTIFICATE OF RENEWAL OF LICENCE AS CREDIT RATING COMPANY

No.

Islamabad, the .....201\_\_

The Securities and Exchange Commission of Pakistan having considered the application for renewal of licence under section 69 of the Securities Act, 2015 by.....(Name of the credit rating company) and being satisfied that it would be in public interest and in the interest of the capital market to renew the licence of .....(Name of the credit rating company) hereby grants, in exercise of the powers conferred by section 69 of the Securities Act, 2015, certificate of renewal of licence to the said company subject to the provisions of the Securities Act, 2015 and the and the rules and regulations made thereunder.

Signature of the Officer

**SCHEDULE I**

**SCHEDULE OF FEE\***

<b>Description of fee</b>	<b>Amount of fee in PKR</b>
Fee to be paid at the time of obtaining permission to form a credit rating company	100,000
Fee to be paid at the time of applying for license as a credit rating company	1,000,000
Fee to be paid at the time of applying for renewal of license as a credit rating company	500,000

\* The above fees shall be deposited into the designated bank account of the Commission, along-with applicable collection charges.

## Annexure C

### FIT AND PROPER CRITERIA

[see Regulation 4, 6(2) and 11(C)]

#### FIT AND PROPER CRITERIA FOR PROMOTERS OR/ SPONSORS, DIRECTORS , CHIEF EXECUTIVE, CHAIRMAN OF THE BOARD OF DIRECTORS, EXTERNAL MEMBER AND SENIOR MANAGEMENT OFFICERS OF CREDIT RATING COMPANIES

#### DEFINITIONS

"Senior Management officers" means key executives of the credit rating company and includes, inter alia, the persons discharging the following functional responsibilities, -

- a. Any executive, officer acting as second to chief executive officer including chief operating officer or by whatever name called;
- b. chief financial officer, head of accounts or head of finance;
- c. Senior Analyst or Rating Manager or by whatever name called;
- d. head of internal audit;
- e. head of information technology;
- f. head of human resource;
- g. head of operations;
- h. head of marketing;
- i. head of research;
- j. head of law, company secretary or compliance officer; and
- k. any other functional responsibility which the Commission may include.

#### APPLICATION AND SCOPE

(1) The Fit and Proper Criteria in relation to a credit rating company is applicable to the following persons:

- (i) promoters or sponsors and substantial shareholders of the credit rating company;
- (ii) director of the credit rating company;
- (iii) chief executive of the credit rating company;
- (iv) external member; and
- (iv) senior Management officers of the credit rating company

(2) A proposed director or chief executive of the credit rating company or external member of the rating committee shall not assume the charge of office until its appointment has been approved by the Commission.

(3) The application for seeking approval of the Commission under clause (2) shall be submitted by the credit rating company along with the requisite information required under Annexure "D" and an Affidavit as specified in Annexure "E".

(4) The appointment of senior management officers of credit rating company does not require the approval of the Commission; however credit rating company shall ensure at the time of appointing a senior management officer that such person qualifies the Fit and Proper Criteria.

(5) The fitness and propriety of any person shall be assessed by taking into account all the relevant factors including but not limited to the following:

- (a) Integrity and track record of such person;
- (b) Financial soundness of such a person;
- (c) Competence and capability of the person; and
- (d) Conflict of interest of such person with the business of the credit rating company

Provided that 5(c) and (d) may not be considered while assessing the fitness & propriety of promoters or sponsors and substantial shareholder of the credit rating company.

Provided further that in case the promoters or sponsor and substantial shareholder is a body corporate, in addition to the relevant/ applicable clauses, corporate behavior of the said body corporate and its sponsors shall be duly considered.

(6) The Fit and Proper Criteria is perpetual in nature and credit rating company shall ensure compliance with the provisions of Fit and Proper Criteria.

(7) The credit rating company shall within 30 days of the close of each calendar year submit the following documents with regard to its chief executive and directors:

- (a) Updated resume;
- (b) CIB reports of the chief executive and directors and the companies, firms, sole proprietorships, etc. where they are acting as directors, chief executives, partners or owners; and

(8) All persons subject to Fit and Proper Criteria shall report any change with reference to their fitness and propriety to the credit rating company within three business days of such change taking effect and credit rating company shall within a period of seven business days from the date of receipt, report the same to the Commission.

(9) The credit rating company shall monitor whether any change in the status of its chief executive, directors and senior management officer is contrary to the requirements of the Fit and Proper Criteria. In case of any change in status result in non-compliance with the Fit and Proper Criteria, the credit rating company shall immediately stop the person from performing his assigned functions, informs the Commission and initiate the process for replacement of the individual with a fit and proper individual.

(10) Any violations or circumvention of the Fit and Proper Criteria shall be dealt with under the provisions of the Act.

## **ASSESSMENT OF FITNESS AND PROPRIETY**

### **(a) Integrity and Track Record**

A person shall not be considered Fit and Proper if he:

- (i) has been convicted of an offence involving moral turpitude;
- (ii) has been involved in the mismanagement of investments, financial or business misconduct, fraud etcetera;
- (iii) has been the subject to adverse findings, after conducting an inquiry, by the Commission or any other regulatory or professional body or government agency;
- (iv) has been actively involved in the management of a company or firm whose registration or license has been revoked or cancelled or which has gone into liquidation or other similar proceedings due to mismanagement of affairs, financial misconduct or malpractices;
- (v) is ineligible, under the Act, Ordinance or any other legislation or regulation, from acting as a director or serving in a managerial capacity of credit rating company or any other company;
- (vi) has entered into a plea bargain arrangement with the National Accountability Bureau
- (vii) in case of promoters or substantial shareholder of credit rating company, does not have the requisite disclosed and verifiable financial resources; and
- (viii) in case of promoters or sponsors or substantial shareholders of credit rating company, does not have special knowledge of matters which the company may have to deal with as a credit rating company.

### **(b) Financial soundness**

In determining a person's financial soundness, the following shall be considered:

- (i) whether such person's financial statements or record including wealth statements or income tax returns or assessment orders are available;

- (ii) whether the person has been declared by a court of competent jurisdiction as defaulter in repayment of loan to a financial institution;
- (iii) whether any instance of overdue or past due payment to a financial institution, irrespective of amount, is appearing in the overdue column of latest CIB report of the person and of the companies, firms, sole proprietorship etc. where the person is a chief executive, director (other than nominee director), owner or partner etc.

Provided that the Commission shall provide an opportunity of making representation to the person in case of overdue or past due payment;

Provided further that the following exceptions may be granted by the Commission for the purpose of this sub-clause in case where:-

- (a) Amount overdue is under litigation and the same is also appearing as amount under litigation in the CIB report; and
  - (b) No overdue payment appearing in the overdue column in the subsequent latest CIB report;
- (iv) whether the person has applied to be adjudicated as an insolvent and his application is pending;
  - (v) whether the person is an un-discharged insolvent; and
  - (vi) whether the person has been declared a defaulter by securities exchange, commodity exchange, clearing house, central depository and /or defaulted in payment of taxes in individual capacity or as a proprietary concern or any partnership firm or as director in an private unlisted and listed company.
  - (vii) whether the person has been a director and or/chief executive of any company or body corporate which has defaulted in payment of government duties/taxes.

**(c) Competence and Capability**

In determining a person's competence and capability the following shall be considered:

- (i) the directors should be individuals having management or business experience of at least five years at a senior level;
- (ii) the directors and the external member shall have experience and knowledge in the field of banking, NBFCs, accounting and finance, law, internal audit or any other field ancillary to the capital market or financial market;
- (iii) the chief executive should have a minimum experience of seven to ten years in a senior management position, preferably in capital market or financial market sector;
- (iv) the chief executive should have completed master's degree in business administration, accounting, finance, commerce , economics, statistics or mathematics from any university duly recognized by Higher Education Commission

of Pakistan and demonstrated, through his qualification and experience, the capacity to successfully undertake the cognate responsibilities of the position; and

- (v) the external member and senior management officers must be qualified professionals possessing relevant experience and certification relating to the job or assignment.
- (vi) the persons must be fully conversant with the duties of chief executive, director, senior management officer or external member as the case may be, as prescribed under the statutes, rules and regulations, memorandum and articles of association and the code of corporate governance

**(d) Conflict of interest**

The directors, chief executive and external members of credit rating company shall not:

- (i) be a director in any other credit rating company engaged in a similar business in Pakistan.
- (ii) be a director, substantial shareholder or senior management officer in a company subject to rating by credit rating company

Provided that this condition shall not apply to nominees of the Federal or Provincial Governments on the board of any credit rating company;

In case of senior management officer, the credit rating company must ensure that no senior management officer shall head more than one functional area that give rise to conflict of interest within the organization. For example, the head of marketing and rating analyst shall not be the same person.

Information to be provided by promoters, substantial shareholders proposed director, proposed chief executive of the ( name of the credit rating company) and proposed external member of rating committee, where applicable

1.	Curriculum Vitae/Resume containing:
a	Name: (former name if any):
B	Father's or Husband Name:
b	C.N.I.C # (attach copy)
c	Latest photograph
d	Nationality:
e	Age:
f	Contact details:
	i) Residential address:
	ii) Business address:
	iii) Tel:
	iv) Mobile:
	v) Fax:
	vi) E-mail:
g	National Tax Number:
h	Present occupation:
i	Qualification(s):
	i) Academic:
	ii) Professional:
j	Experience: (Positions held during the last 10 years along with name and address of company/ institution)
2.	<p><b>Nature of directorship</b>    Executive    <input type="checkbox"/>    Non-executive    <input type="checkbox"/></p> <p><b>Status of directorship</b>    Nominee director    <input type="checkbox"/></p> <p>Number of shares subscribed or held _____</p> <p>Nominated by _____ (name of shareholder)</p> <p>Personal net worth (copy of wealth statement) _____</p>
3.	Names of companies, firms and other organizations of which the proposed person is a director, partner, office holder or substantial shareholder.

4.	CIB report issued by SBP for each company of which he has been a director (attach original CIB report)
5.	In the case of appointment of directors the date of board of directors' meeting in which the appointment of proposed director was approved. (Attach copy of the minutes of the meeting of the board of directors. If the director is elected, then attach a copy of the minutes of the general meeting of the company.)
6.	Names of persons on the board of the credit rating company who are related to the applicant.

**Signature**

\_\_\_\_\_

\*use additional sheets if required

**Undertaking to be filed by director/CEO/External member**  
(On Stamp Paper of Appropriate Value)

**AFFIDAVIT**  
/(name of relevant entity)

I, \_\_\_\_\_ son/daughter/wife of \_\_\_\_\_ adult,  
resident of \_\_\_\_\_ and holding CNIC/  
Passport No. \_\_\_\_\_ do hereby state on solemn affirmation as  
under:-

1. That I am eligible for the position of Director/Chief Executive/external member according to the Fit and Proper Criteria prescribed for the position of Directors/ Chief Executive/external member, as per the Credit Rating Companies Regulations, 2016.
2. That I hereby confirm that the statements made and the information given by me are correct and that there are no facts which have been concealed.
3. That I have no objection if the (name of relevant entity) requests or obtains information about me from any third party.
4. That I undertake to bring to the attention of the (name of relevant entity) any matter which may potentially affect my status for the position of Director/Chief Executive Officer/external member as per the Fit and Proper Criteria specified in the Credit Rating Companies Regulations, 2016
5. That all the documents provided to (name of relevant entity), are true copies of the originals and I have compared the copies with their respective originals and certify them to be true copies thereof.
- (6) I will continuously exercise integrity, diligence, competence and soundness of judgment in fulfilling my responsibilities for this position under the applicable laws.
- (7) I will not interfere in the fair implementation of the rating policies, criteria, methodologies and procedures and will not influence any of the rating process.
- (8) The above declaration has been signed by me pursuant to my nomination as ....(Name of the position nominated for) of ...(Name of credit rating company)...

DEPONENT

The Deponent is identified by me

Signature \_\_\_\_\_

ADVOCATE  
(Name and Seal)

Solemnly affirmed before me on this \_\_\_\_\_ day of \_\_\_\_\_ at \_\_\_\_\_ by the Deponent above named who is identified to me by \_\_\_\_\_, Advocate, who is known to me personally.

Signature \_\_\_\_\_

OATH COMMISSIONER FOR TAKING AFFIDAVIT

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**FIT AND PROPER CRITERIA FOR RATING ANALYST**

*[see Regulations 11(A)(c)]*

"Rating Analyst" means an employee of the credit rating company who performs analytical functions that are necessary for the issuing or monitoring of a credit rating or participates in determining credit ratings.

**APPLICATION AND SCOPE**

(1) The Fit and Proper Criteria in relation to credit rating company is applicable to the following persons:

- (i) Rating Analyst; or
- (ii) Any other term being used for persons performing the function of rating services with a credit rating company.

(2) A proposed rating analyst of the credit rating company shall not assume the charge of office until they fulfill the fit and proper criteria as prescribed by the Commission.

(3) The fitness and propriety of Rating Analyst shall be assessed by taking into account all the relevant factors including but not limited to the following:

- (a) Competence and capabilities of the person;
- (b) Reputation and past record;
- (c) Financial integrity of such person; and
- (d) Conflict of interest of such person with the business of the credit rating company.

(4) The Fit and Proper Criteria for Rating Analyst is perpetual in nature and credit rating company shall ensure compliance with the provisions of Fit and Proper Criteria.

**ASSESSMENT OF FITNESS AND PROPRIETY**

(a) **Competence and Capabilities**

In determining a person's competence and capability the following shall be considered:

- (i) The analyst should have completed at least 16 years of education in Accounting, Finance, Commerce, Mathematics, Statistics, Economics or have

- completed professional qualifications in ACCA, ICMA, CA , CFA or FRM etc.; and
- (ii) the Analyst has at least 2 years of relevant experience in the field of financial audit and analysis, commercial bank, investment advisory services relating to investment in securities particularly the corporate bonds, corporate finance, investment in corporate bonds or any other related activities; and
- (iii) the analyst should have demonstrated, through his qualification and experience, the capacity to successfully undertake the cognate responsibilities of the position; and

**(b) Reputation and Past Record**

A person as a rating analyst shall not be considered Fit and Proper if he:

- (i) has been convicted of an offence involving moral turpitude;
- (ii) convicted in any criminal offence or directly involved in any settlement in civil/ criminal proceedings in any court, particularly with regard to investments, business misconduct, fraud/ forgery, breach of trust and financial crime etc
- (iii) has been the subject to adverse findings, after conducting an inquiry, by the Commission or any other regulatory or professional body or government agency;
- (iv) disqualified/removed from any organization
- (v) no investigation or enquiry is under process in the Commission or in any other regulatory authority against the person

**(c) Financial Integrity**

In determining an analyst's financial integrity, the following shall be considered:

- (i) whether the person has been declared by a court of competent jurisdiction as defaulter in repayment of loan to a financial institution exceeding Rupees five hundred thousand;
- (ii) whether the latest Credit Information Bureau report of the person shows overdue payments or default to a financial institution;
- (iii) whether the person has applied to be adjudicated as an insolvent and his application is pending;
- (iv) whether the person is an un-discharged insolvent; and

- (v) whether the person has been declared a defaulter by a stock exchange.

**(d) Conflict of interest**

The analyst :

- (i) is not an associate of any director, substantial shareholder or senior management officer of the customers of the credit rating company;
- (ii) is not substantial shareholder of the customer being rated by the credit rating company. A disclosure to this effect should be obtained by the credit rating company; and
- (iii) is not a director of an entity being rated by the credit rating company.

**CRITERIA AND METHODOLOGIES TO BE DEVELOPED AND DISCLOSED BY CREDIT RATING COMPANIES [see regulation 11(C)(r)]**

The criteria, methodologies and procedures to be developed and disclosed by a credit rating company shall include at least the following:

- (i) Entity rating criteria for each class of entity.
- (ii) Instrument rating criteria for various types of instruments like Corporate Bonds, Govt. Bonds, Sukuk, Preference Shares etc.
- (iii) Rating criteria for structured financial products.
- (iv) Criteria for rating watch and its timeline.
- (v) Criteria for rating outlook and its meaning.
- (vi) Methodology governing linkages between parent and subsidiary companies.
- (vii) Criteria on subordinated loans and preferred debt by corporate and financial institutions.
- (viii) Correlation between short and long term rating scale.
- (ix) Definition of default and calculation of the default rates.
- (x) pricing policies and fee structure

**LIST OF POLICIES TO BE DEVELOPED AND DISCLOSED BY A CREDIT RATING  
COMPANY/AGENCY [Regulation 14(3)(g) ]**

The Policies to be developed and disclosed by a CRA shall include at least the following:

- i. Policy for solicited credit rating, un-solicited credit rating and private credit rating.
- ii. Policy for announcement/dissemination of rating.
- iii. Policy for withdrawal and suspension of rating.
- iv. Policy for charging fee relating to the credit rating services.
- v. Policy for review of credit ratings. The policy must cover all the reviews including annual review, review upon occurrence of any event where CRA deems appropriate that the rating be reviewed and review on the basis of request by an investor, creditor or the Issuer.
- vi. Whistle blower policy.
- vii. Policy for rotation of analyst.
- viii. Policy for treatment of the confidential information by the CRA and its employees.
- ix. Policy for investment and trading in securities by employees of a CRA.

**OTHER INFORMATION TO BE DISSEMINATED ON THE WEBSITE OF A CREDIT RATING  
COMPANY/AGENCY**

In addition to the information mentioned in regulation 14 of these regulations, credit rating companies shall disseminate on their websites the following information:

(1) Detail of all credit ratings conducted during the last five years, both solicited and unsolicited. The detail must contain at least the following:

- (i) In case of entity ratings:
  - (a) Name of the entity rated;
  - (b) Name of sector belonged to; and
  - (c) Rating grade assigned.
- (ii) In case of instrument ratings:

- (a) Nature of the instrument;
- (b) Tenure of the instrument;
- (c) Size of the issue;
- (d) Redemption schedule;
- (e) Nature of security, in case of secured instrument;
- (f) Rating grade assigned; and
- (g) Name of the Trustee.

(2) List of entities and issues switched over from one credit rating company to other credit rating companies during the last five years.

(3) Detail of transitions/changes in the credit ratings reviewed during the last five years. The detail should contain the ratings upgraded, downgraded and those remained unchanged. For ease of comparison both the rating i.e. before and after the review and the number of notches upgraded or downgraded should be disclosed.

(4) History of the credit rating of all the outstanding issues. The history should contain name of the issuer, nature of the instrument, initial credit rating and its date, first revised credit rating and its date, second revised credit rating and its date, third revised credit rating and its date and so on.

(5) Rating scales both long term and short term and their definitions.

(6) Definition of the term, "default".

(7) Entity-wise list of defaults for all the outstanding issues and for all the issues redeemed during the last five years.

(8) Rating scale-wise list of default for all the outstanding issues and for all the issues redeemed during the last five years separately for structured instruments and non-structured instruments.

(9) Number of private ratings conducting during the last five years and number of private ratings made public during the last five years.

**MINIMUM CONTENTS OF THE CODE OF CONDUCT FOR EMPLOYEES OF A CREDIT RATING  
COMPANY**

[see regulation 11(A)(n)]

- (1) The credit rating company must have a Code of Conduct for its employees, hereinafter referred to as the Employees' Code of Conduct.
- (2) The Employees' Code of Conduct must require the employees to sign a Non-Disclosure Agreement (NDA).
- (3) The NDA must contain at least the following:
  - (i) A clause requiring all the employees:
    - (a) not to share the non-public information known to them due to their position in the credit rating company with outsiders and irrelevant employees;
    - (b) not to use such non-public information for their personal benefits or for the benefits of any of their relatives, friends and associates or for any other purpose except the conduct of the credit rating company's business;
    - (c) not to disclose any non-public information about rating opinions or possible future rating actions by the credit rating company, except to the rating entity/issuer or its designated agents;
    - (d) not to disclose any confidential information about its clients, which has come to their knowledge in the course of the rating process, to any person including other clients and press without prior written approval of such client, except when such disclosure is required under any law;
    - (e) not to use or share confidential information for the purpose of trading in securities or for any other purpose except the conduct of the credit rating company's business; and
    - (f) to fully adhere to the credit rating company's policy for trading in securities by its employees.
  - (ii) A clause prohibiting all the employees from participation or otherwise influence the determination of the credit rating company's rating of any particular entity or instrument, if the employee;
    - (a) owns securities of such entity, other than holdings in diversified collective investment schemes;

- (b) owns securities of any entity related to such rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes;
  - (c) has had a recent employment or other significant business relationship with such rated entity that may cause or may be perceived as causing a conflict of interest;
  - (d) has an immediate relation (i.e., a spouse, partner, parent, child, or sibling) who currently works for such rated entity; or
  - (e) has, or had, any other relationship with such rated entity directly or indirectly that may cause or may be perceived as causing a conflict of interest.
- (iii) A clause requiring the rating analyst to disclose, before commencement of the rating process, relationship, if any, with the rating entity or any of its substantial shareholder and director or any other interest in the entity to the officer designated by the credit rating company for this purpose.
- (iv) A clause prohibiting the rating analysts to join, within one year of the relieving from credit rating company, any entity rated by such credit rating company.
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*Bushra*  
5/8/16

( Bushra Aslam )  
Secretary to the Commission

