



SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN



SUMMARY OF AMENDMENTS IN CREDIT RATING COMPANIES REGULATIONS, 2016

1. WHAT IS A CREDIT RATING COMPANY?

Credit rating company is a public company licensed by the Commission, that evaluates the credit worthiness of a person (including issuers of debt securities) regarding its ability or willingness to meet financial obligations in full and on time

2. EXISTING CREDIT RATING COMPANIES

There are only two credit rating companies registered under the Credit Rating Companies Regulations, 2016 (the Regulations) in Pakistan:



THE PAKISTAN CREDIT RATING
AGENCY LIMITED (PACRA)



VIS CREDIT RATING
COMPANY LIMITED (VIS)

3. REGULATORY FRAMEWORK:

PRIMARY LAW

Securities Act, 2015

REGULATIONS

The Credit Rating Companies Regulations, 2016

4. REASONS TRIGGERING REVIEW:

Under the existing framework:

- i. There are restrictions on shareholdings in Credit Rating Companies (CRCs), both in terms of percentage of shareholding and on different types of investors categories. This creates hinderances to transfer of shares, even for strategic investors; and
- ii. Mechanism for switching of CRC is not clearly pronounced.

In order to address the above deficiencies, regulatory framework of other countries was considered and stakeholders consultations were conducted.

5. GLOBAL ANALYSIS:

Laws governing credit rating of four countries (India, Malaysia, Turkey and United States) were examined for a comprehensive review. Pakistan's credit rating regulatory framework in general is in line with global framework, except for the following:

- Globally, there is no restriction on shareholding by an individual investor; and
- Blocking of shares held by promoters or sponsors, substantial shareholders and directors of CRCs.

6. SOLUTION:

Subsequent to feedback from CRCs and based on international study, below listed amendments are proposed in the Regulations:

i. Restriction on Credit Rating Companies:

- Restriction on complete shareholding to be kept in blocked form has been relaxed to 25% to be held by following for a period of 3 years.
 - a) a financial institution as defined under clause 8 [(31) of sub-section (1) of section 2 of the Companies Act]; or
 - b) an insurance company; or
 - c) a licensed securities exchange; or
 - d) a company licensed by the Commission to provide depository, clearing or settlement services in the securities market; or
 - e) a foreign credit rating agency recognized by or under any law for the time being in force in the country of its incorporation; or
 - f) an institution as may be notified by the Commission from time to time.
- Requirement of approval for change in shareholding is proposed to be enhanced from 2% to 10%, meaning thereby any change in shareholding of CRC that entitles the shareholder more than 10% shareholding requires prior written approval of the Commission.

ii. Switching of CRC: Clarity is being brought to ensure smooth transition.

- If a company intends to terminate the rating contract/agreement with existing CRC, then it shall:
 - a) obtain a No Objection Certificate (NoC) from the existing CRC;
 - b) continue the rating contract/agreement with the existing CRC for one (1) year; and
 - c) both the CRCs (existing and newly engaged) shall provide credit rating simultaneously for one (1) year.

iii. Amendments to the Credit Rating Companies Regulations, 2016:

- Complete set of proposed amendments to the Credit Rating Companies Regulations, 2016 are published and open for public comments.
- The Regulations can be accessed through the following link
<https://www.secp.gov.pk/document/notification-draft-amendments-in-credit-rating-companies-regulations-2016/?wpdmdl=44816&refresh=62ac6d79da2091655467385>
- Comments/input/queries can be emailed at the following address: crfeedback@secp.gov.pk