

GOVERNMENT OF PAKISTAN  
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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*Islamabad, the 10<sup>th</sup> October, 2019*

**NOTIFICATION**

**S. R. O. 1223 (I)/2019.**- In exercise of powers conferred by sub-section (1) 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 amendments to the Credit Rating Companies Regulation, 2016, the same having been previously published in official Gazette vide S.R.O 1571(I)/2018, dated December 26, 2018, and also placed on the website of the Commission as required by sub-section (4) of section 169 of the Securities Act, 2015 namely:-

In the aforesaid Regulations,-

- (1) in regulation 2,-
  - (a) in sub-regulation (1), after clause (a), the following new clause shall be inserted, namely:-

"(ab) Companies Act" means the Companies Act, 2017 (XIX of 2017)"; and
  - (b) in sub-regulation 2, for the expression "Companies Ordinance, 1984 (XLVII of 1984)," the expression "Companies Act" shall be substituted;
- (2) in regulation 4, in clause (b), for the expression "Companies Ordinance, 1984 (XLVII of 1984)," the expression "Companies Act" shall be substituted;
- (3) in regulation 5, in sub regulation (1), the words "and receipt evidencing payment of non-refundable processing fee as specified in Schedule I" shall be omitted;
- (4) in regulation 6,-
  - (a) in sub-regulation (2),-
    - (i) in clause (f), in third proviso, for the expression "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;" the expression "the chief

executive, director(s) and substantial shareholder(s);” shall be substituted;

- (ii) in clause (g), the expressions “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.” shall be omitted;
- (5) in regulation 7, in sub regulation (1), the words “and evidence of payment of non-refundable renewal fee of such amount as prescribed in Schedule I” shall be omitted;
- (6) in regulation 10,-
- (a) in sub-regulation (1),-
    - (i) in clause (a), in sub-clause (i), for the expression "(15A) of sub-section (1) of section 2 of and the Companies Ordinance, 1984 (XLVII of 1984)," the expression "(31) of sub-section (1) of section 2 of the Companies Act" shall be substituted; and
    - (ii) in clause (b),-
      - (A) in sub-clause (i), for the expression “twenty” the expression “than thirty-three” shall be substituted;
      - (B) in sub-clause (ii), for the expression “25%” the expression “40 percent” shall be substituted; and
      - (C) in sub-clause (iii), in proviso, the expression, “and (b)” shall be omitted;
  - (b) in sub-regulation (7), in clause (f), for the semi colon at the end, a colon shall be substituted and thereafter the following new proviso shall be inserted, namely:-

“Provided that this clause shall not apply in case a credit rating assignment is obtained through open bidding under the Public Procurement Rules, 2004 or any other applicable law relating to procurement of services;”;
- (7) in regulation 11,-
- (a) in clause (A), sub-clause (b) along with proviso shall be omitted;
  - (b) in clause (B), for sub-clause (l), the following shall be substituted, namely:-

“(l) ensure that a periodic or annual review of risk management systems and controls of the credit rating company is carried out-

- (i) by the internal audit department, which reports directly to the board of directors or its audit committee; or
- (ii) through outsourced firm of Chartered Accountants, which has been assigned a satisfactory Quality Control Review rating by the Institute of Chartered Accountants of Pakistan;”;

(c) in clause (F),-

- (i) for the heading “Appointment of the Compliance Officer” the heading “Appointment of person for monitoring compliance” shall be substituted;
- (ii) for sub-clause (a), the following shall be substituted, namely:-

“(a) The credit rating company shall,

- (i) designate an officer as a compliance officer; or
- (ii) appoint a firm of Chartered Accountants, which has been assigned a satisfactory Quality Control Review rating by the Institute of Chartered Accountants of Pakistan, for monitoring compliance of the credit rating company with the applicable regulatory regime; and
- (iii) a credit rating company may outsource both its compliance and internal audit functions to a single firm of Chartered Accountants.”

(iii) for sub-clause (g), the following shall be substituted, namely:-

“(g) the compliance officer or a firm of Chartered Accountants, as the case may be, shall prepare compliance reports, on semi-annual basis,

which shall be submitted to the board of directors of the credit rating company;”;

(8) in regulation 12, -

(a) in sub-regulation (1), in clause (b), for sub-clauses (i) and (ii), the following shall be substituted, namely:-

“(i) a credit rating company shall select independent directors from the data bank of independent directors notified under Section 166 of the Companies Act and the Companies (Manner of Selection of Independent Directors) Regulations, 2018;

(ii) the name selected from the data bank shall be submitted by the credit rating company to the Commission for its approval. The credit rating company shall ensure that such person is selected from relevant diverse fields of work with appropriate qualification and experience;”;

(b) in sub-regulation (2), in clause (a), at the end, existing proviso shall be substituted with the following, namely:-

“Provided that CEO, being deemed director, shall not be part of the rating committee.”;

(9) in regulation 13,-

(a) in sub-regulation (1), in clause (e), for semi colon at the end, a colon shall be substituted and thereafter a new proviso shall be inserted, namely:-

“Provided that this clause shall not be applicable in case of a credit rating assignment obtained through open bidding under the Public Procurement Rules, 2004 or any other applicable law relating to procurement of services.”;

(b) after clause (e), the following new clause shall be added, namely:-

“(ei) a clause stipulating that, in case of dual private rating, authorizing the existing credit rating company to make public the private rating assigned by it, in case its client approaches another credit rating company, during the life of the contract with the existing credit rating company, to make public the private rating assigned by such other credit rating company.”;

- (10) in regulation 14,-
- (a) for sub-regulation (1), the following shall be substituted, namely:-
- “(1) Save as provided in sub-regulation (3) of regulation 16 of these Regulations, 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 Associated Press of Pakistan and All Pakistan Newspapers Society.”;
- (b) in sub-regulation (3), in clause (f), for sub-clause (vi), the following shall be substituted, namely:-
- “(vi) assumptions and rationale for the rating assigned, the risk factors considered in the assessment and critical financial information of the entity covering at least paid-up capital, equity, revenue, profit/(loss) before tax, profit/(loss) after tax, cash flow position, debt to equity ratio and current ratio;”;
- (11) in regulation (16),-
- (a) for sub-regulation (2), the following shall be substituted, namely:-
- “(2) Save as provided in sub-regulation (3) of this regulation, the credit rating company’s policy for private ratings must clearly articulate non-publication and non-dissemination of the private ratings and confidentiality of the related information.”;
- (b) for sub-regulation 3, the following shall be substituted, namely:-
- “(3) Whenever a private rating has been assigned by a credit rating company, and its client approaches, during the life of the contract with the existing credit rating company, to another credit rating company to make public the private rating assigned by such other rating company the existing credit rating company shall also make public the private rating assigned by it.”;
- (12) in regulation 17, for sub-regulation (b), following shall be substituted, namely:
- “(b) review all the outstanding ratings on semi-annual basis or upon occurrence of such an event which requires to do so:
- Provided that public dissemination of semi-annual review will be required only in case of any change in the underlying rating;”;

- (13) in regulation 19, in sub-regulation (3), for the expression “and to the Commission” shall be omitted;
- (14) in regulation 20, for the expression “Companies Ordinance, 1984” the expression “Companies Act” shall be substituted;
- (15) in regulation 21, for the expression “Companies Ordinance, 1984” the expression “Companies Act” shall be substituted;
- (16) in regulation 22, for the expression “Companies Ordinance, 1984 and shall make them available on its website” the expression “Companies Act” shall be substituted;
- (17) in Form I,
- (i) in second paragraph, the expression “along with five spare copies of this application” shall be omitted; and
- (ii) in expression “A receipt of rupees [(Rs. \_\_\_\_\_)] being the processing fee, deposited in----- on -----is enclosed” shall be omitted;
- (18) in Annexure to Form I,
- (a) in second paragraph, the expression “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” shall be omitted;
- (b) paragraph 6, shall be omitted;
- (c) in paragraph 8,-
- (i) for sub-clause (b) the following shall be substituted, namely:-  
“(b) he has no over-due loans or installments outstanding towards banks or other financial institutions;”;
- (ii) sub-clause (c) shall be omitted; and
- (d) paragraph 9 shall be omitted;
- (19) in FORM II, for paragraph 1, the following shall be substituted, namely:-  
“1. We hereby apply for license of (Name of Credit Rating Company) under regulation 6(1) of the Credit Rating Companies Regulations, 2016 (the Regulations), read with section 68 of the Securities Act, 2015.”;

- (20) in Annexure to Form II, for sub-paragraph 1.12, the following shall be substituted, namely:-

“1.12 In case any associated company of the applicant is already licensed under the Securities Act, 2015, name of such associated company(ies) shall be provided.”;

- (21) in Form A,-

- (a) for the first paragraph, the following shall be substituted, namely:-

“The Securities and Exchange Commission of Pakistan having considered the application for grant of licence under regulation 6(1) of the Credit Rating Companies Regulations, 2016 (the Regulations), read with 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 regulation 6(2) of the Regulations, read with 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.”;

- (b) after paragraph 2, for the expression “Signature of the Officer” the following shall be substituted, namely:-

“For and on behalf of the Securities and Exchange Commission of Pakistan  
(Authorized Signatory)”;

- (22) in annexure A, paragraph 3 shall be omitted;

- (23) for Schedule I, the following shall be substituted, namely:-

**“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 applying for license as a credit rating company	100,000

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

- (24) in Annexure C,-

- (a) under heading "APPLICATION AND SCOPE,-

- (i) in clause (1), for sub-clause (iv), appearing for the second time, the following shall be substituted, namely:-
    - “(v) senior Management officers, other than rating analyst or such other persons by whatever name called, of the credit rating company”;
  - (ii) sub-clause (7) shall be omitted;
- (b) under heading “ASSESSMENT OF FITNESS AND PROPRIETY”,-
- (i) in clause (a), in sub-clause (v) for the expression “Ordinance” the expression “Companies Act” shall be substituted;
  - (ii) in clause (b),
    - (a) for sub-clause (i), the following shall be substituted, namely:-
      - “(i) whether such non-individual person’s financial statements are available.”;
    - (b) for sub-clause (iii), the following shall be substituted, namely:-
      - “(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.”;
    - (c) for sub-clause (vi), the following shall be substituted, namely:-
      - “(vi) whether the person has been declared a defaulter by securities exchange, commodity exchange, clearing house and, central depository.”;
    - (d) sub-clause (vii) shall be omitted;
  - (iii) in clause (d), in sub-clause (ii), for the proviso the following shall be substituted, namely:-
    - “Provided that this condition shall not apply to:
      - (a) nominees of the Federal or Provincial Governments on the board of any credit rating company;; and



- (b) external member on the board of the credit rating company subject to the condition that such external member shall not participate in rating of an entity, where he/she is a director, substantial shareholder or senior management officer.” ;

(25) in Annexure D,

- (a) in column number (2), at the end, the following shall be added, namely:-

“This clause shall not be applicable in case of persons other than promoters and substantial shareholders;”;

- (b) column number 4, shall be omitted;

(26) in Annexure F,-

- (a) in clause (a),-

- (i) in sub-clause (ii), the expression “investment in corporate bonds” shall be omitted and the word “and” at the end, shall be omitted;

- (ii) after sub-clause (ii), the following new sub-clause shall be added, namely: -

“(iia) the requirements of clause (ii) may be relaxed in case of fresh graduates hired as rating analyst provided they have no leading and decision making role in the rating process; and”;

- (b) in clause (d),-

- (i) in sub-clauses (i), for the words “of the credit rating company” the words “rated by the analyst”; shall be substituted;

- (ii) in sub-clause (ii), for the words “credit rating company”, appearing for the first time, the word “analyst” shall be substituted;

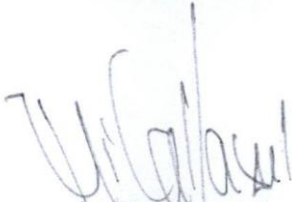
- (iii) in sub-clause (iii), the words “credit rating company” the words “analyst” shall be substituted;

(27) in Annexure H, in clause (v), after the words “annual review,” the expression “semi-annual review,” shall be inserted; and

- (28) in Annexure I, in clause (3), in sub-clause (iv), for the words “credit rating company” appearing for the second time, the word “analyst” shall be substituted.

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( Bilal Rasul )  
Secretary to the Commission