



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**  
**PROFESSIONAL SERVICES & POLICY DIVISION**

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Islamabad, the 17<sup>th</sup> February, 2005

**SUBJECT: Directive under the Credit Rating Companies Rules, 1995**

For establishing a procedural framework for credit rating companies and in the interest of public and the capital market, the Commission, in exercise of the powers conferred by rule 7 of the Credit Rating Companies Rules 1995 is pleased to direct that the Credit Rating Companies shall follow and comply with the following **Code of Conduct** with immediate effect.

1. **CREDIT RATING PROCESS:-** The credit rating company (hereinafter referred to as 'CRC') shall –
  - (a) lay down rating methodology for each product and, shall file a copy of the same and any subsequent modification thereof with the Commission for record;
  - (b) establish adequate infrastructure and employ persons having required professional and other relevant experience to enable it to provide rating services in accordance with the Rules;
  - (c) form professional rating committees, comprising members who are adequately qualified and knowledgeable to assign a rating;
  - (d) ensure that only the rating committee takes all the rating decisions, including the decisions regarding changes in rating, without any let or hindrance from other officers or forces within or outside the CRC;
  - (e) use a rigorous and systematic assessment methodology based both on qualitative and quantitative techniques consistent with the prevalent international best practices;
  - (f) not change the rating definition, symbols, and/or rating process without prior intimation to the Commission and the public at least fifteen days prior to such a change. While informing the public, the existing ratings shall be harmonized through newspapers/websites etc.;
  - (g) inform the Commission about its new rating product/service; and

- (h) continuously monitor all its ratings and carry out periodical reviews of all its current outstanding ratings.

2. **DISCLOSURE REQUIREMENT:-** The credit rating company shall –

- (a) make public the rating definition and the symbol related thereto;
- (b) ensure that detailed credit rating report and the rating notification contains the names and contact information of the rating analysts and provides the rationale and basic principles/assertions underlying the rating issued and risk factors considered in the assessment;
- (c) also state that the rating does not constitute recommendations to buy, hold or sell any securities;
- (d) publicly disseminate all ratings assigned by them, whether solicited by their clients or unsolicited, through press release in at least one English and one Urdu national daily, within two working days of the notification of such ratings. In cases where rating is unsolicited, the rating report shall clearly state this fact and whether the rated entity was a part of this process and also the source of information on which it is based. The disseminated ratings shall contain the rationale of the ratings, covering an analysis of the various factors justifying the assessment, as well as factors constituting a risk:  
Provided that solicited ratings which are not required to be published by virtue of any statutory requirement and the rated entity is not engaged in soliciting public deposits in any way, may be kept confidential if the client wishes to do so;
- (e) develop and maintain a web site on which press releases in respect of solicited ratings and rating reports in respect of unsolicited ratings shall be kept available for not less than three years from the date of the report. The website shall also contain information relating to:
  - (i) actual default rates experienced in each rating category; and
  - (ii) rating transitions of client over time (i.e. AAA credit rating transiting to AA etc. over time).

For the purposes of items (i) and (ii), the time period would be five years.

3. **AGREEMENT WITH CLIENTS:-** The CRC shall enter into a written agreement with each client for solicited ratings and every such agreement shall *inter-alia* include the following provisions, namely:-

- (a) The rights and liabilities of each party shall be clearly defined;

- (b) The fee to be charged by the CRC shall be specified for specified period;
- (c) The client shall agree to co-operate with the CRC in order to enable the latter to arrive at and maintain a true and accurate rating of the client/client's security and shall in particular provide to the latter a true, complete and timely information for the purpose;
- (d) The client shall agree to a periodic review of the ratings by the CRC during the tenure of the rating and the periodicity of review shall not be less than once a year;
- (e) If the client does not co-operate with the CRC to enable the CRC to comply with its obligations, the CRC shall suspend the rating/withdraw from the engagement and in case of existing/outstanding rating, the CRC shall promptly notify this fact to the Commission and the public.

4. **OTHER OBLIGATIONS OF CRCs:-** The CRC shall abide by the following:

- (a) It shall not accept a rating assignment where a client has prematurely terminated a rating contract with another credit rating company, unless it obtains a written no-objection from the previously engaged credit rating company stating the reasons for cancellation of its rating contract.
- (b) It shall not rate securities issued by it.
- (c) It shall not rate a client nor rate securities issued by such client, which is an associated company or undertaking as defined in the Companies Ordinance, 1984.
- (d) It shall not provide consultancy/advisory services to any client or to any of its associated company that is being rated or has been rated by it during the preceding three years.
- (e) It shall exercise due diligence and observe high standards of integrity, transparency and fairness in all its professional dealings.
- (f) It shall establish, document, and ensure implementation and compliance of, policies and procedures to protect against potential conflicts of interest and disclose to the client all possible sources of conflict of interests including that of its directors, management, rating committee and employees.
- (g) It shall not get involved in unfair competitive practices nor shall solicit the clients of any other rating company on implicit or explicit assurance of higher rating or any other undue benefit.

- (h) It shall not make unsubstantiated claims, in order to solicit clients, about qualifications of its professional staff or its capability to render certain services or its achievements concerning services rendered to other clients.
- (i) It shall not, without obtaining prior written approval of the rated client, disclose to other clients, press or any other party any confidential information about its client, which has come to its knowledge in the course of the rating process, except when such disclosure is required in terms of a legal obligation.
- (j) It shall document and ensure implementation and compliance of policies and procedures to prevent the disclosure of non-public information to outside parties that may benefit from this information. In cases where a CRC is a parent, subsidiary, joint venture partner or affiliate of any organization that might benefit from non-public information, the CRC shall ensure strong firewalls that prevent the disclosure to or use of non-public information by these related or affiliated businesses or their personnel.
- (k) It shall require its employees to sign a non-disclosure agreement that prohibits them from using their access to such information for their own personal benefit.
- (l) It shall appropriately record, and ensure confidentiality of, the information/documents provided by the issuer during the rating process.
- (m) It shall not make untrue statement or suppress any material fact in any documents, reports, papers or information furnished to the Commission or to public or to stock exchange.
- (n) It shall not generally and in particular situations in relation to its rating, be party to –
  - (i) creation of false market;
  - (ii) passing of price sensitive information to brokers, members of the stock exchanges, other players in the capital market or to any other person or take any other action which is unethical or unfair to the investors.
- (o) It shall create firewalls to restrict any information flow between its credit rating activity and any other activity that it may undertake.
- (p) A CRC or any of its employees shall not provide, directly or indirectly, any investment advice or opinion about any security in the publicly accessible media, whether real - time or non- real time, unless a disclosure of its interest in the said security has been made, while rendering such advice.

- (q) It shall acquire and maintain membership of the Association of Credit Rating Agencies in Asia (ACRAA) and follow the best practices guidelines issued by ACRAA from time to time.

5. **FILING OF REPORTS BY THE CRCs:**

The CRC shall file a yearly report containing a clause-wise compliance status of this code. The first such report shall be filed within one month of the issuance of this code.

Provided that the Commission may extend the time period for the filing of this report if it considers it to be in the interest of the capital market and the general public.

**(Etrat H. Rizvi)**  
Commissioner