

Press Release

SEC issues Code of Conduct for Credit Rating Companies

Islamabad, March 1 2005: The Securities and Exchange Commission of Pakistan (SEC) has issued a detailed code of conduct for credit rating companies aimed at improving the rating process and ensuring the credibility of ratings issued by these companies. The code has been developed in line with international best practices and ethical requirements for credit rating.

Salient features of the code are:

1. The credit rating companies are required to give due consideration to factors such as objectivity, independence, transparency and proper disclosure during the rating process.
2. Certain provisions are specified to be incorporated in the rating agreement with the client, which would clearly stipulate the responsibilities of both parties involved.
3. The credit rating companies are required to develop and maintain a website on which press releases and rating reports are to be kept for at least three years.
4. The credit rating companies are required to establish and document policies and procedures to ensure that no conflict of interest arises that would jeopardize the objectivity of ratings.
5. The credit rating companies are required to develop policies to ensure confidentiality of information obtained by them from the rated entities.
6. The credit rating companies are required not to take any part in creation of false market and passing of price sensitive information to any players in the capital market.
7. The credit rating companies are required to 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.

The credit rating companies have been operating in Pakistan since 1996-97. They have played a useful role in fostering the investor confidence and promoting the development of capital market in the country. Until now, credit rating companies were following their individual procedures for the purpose of rating. A need was felt to standardise these procedures and the code of conduct, developed by the SEC, will provide a transparent framework for credit rating in this regard.