

BEST PRACTICES

ACRAA MEMBERSHIP

PACRA has become a founder member of ACRAA (the Association of Credit Rating Agencies in Asia) since 06 June 2002. ACRAA is an association formed by Asian credit rating agencies, and assisted by the Asian Development Bank. ACRAA has been set up to act as a forum for exchange of skills and ideas among rating agencies, and for the promotion of Best Practices and norms of conduct, thereby aiding the development of Asia's financial markets.



ACRAA has been active in bringing together rating agencies from across Asia for regular interchange of experiences, and has been instrumental in arranging world-class professional training for the member agencies' analysts.

A significant initiative undertaken by the Best Practices Committee of ACRAA was to create the ACRAA Best Practices Checklist. Member Agencies are expected to declare their positions on each of the items in the checklist.

PACRA's position on these aspects is set out below.

(A). QUALITY AND INTEGRITY OF THE RATINGS PROCESS

1. SPECIFICATION AND DESCRIPTION OF RATING PROCESS AND CRITERIA

We have clearly specified and publicly available process and criteria for arriving at a rating.

2. PUBLISHED AND EXPLICIT RATINGS REVIEW / APPEAL PROCESS

PACRA communicates the rating decision, alongwith detailed credit rating report, to the client, who has the right to appeal within seven days of the assignment of the rating. The appeal process is expected to highlight specific issues for reconsideration by the rating committee. The committee's decision on the appeal is final and duly communicated to the client.

3. POLICY ON RATING WITHDRAWALS

Instrument ratings are normally withdrawn only when the rated instrument is redeemed. The entity ratings are withdrawn or suspended either on the client's decision to withdraw the rating mandate or in extreme cases owing to reluctance by the client to provide the required information. In such cases the last date that the rating was updated and the fact that the rating is currently withdrawn is disseminated publicly.

4. POLICY ON DISCLOSURE OF UNACCEPTED RATINGS

PACRA does not reveal unaccepted ratings which may not be regulatory driven.



5. POLICY ON SURVEILLANCE

PACRA ratings are kept under continuous surveillance. Formal management meetings are held once a year. The ratings are generally reviewed once every year, unless circumstances warrant an earlier review. Internal reviews are carried out at least once a quarter.

Following the initial rating, PACRA keeps in close touch with the company to remain abreast of interim figures and any internal or external developments that may affect PACRA's assessment. In addition, PACRA regularly monitors a broad range of economic factors and trends that may impact on credit risk. As and when any major change takes place, the existing rating is placed on '**Rating Watch**'. The rating is then upgraded, downgraded or maintained after assessing the impact of any such change.

6. POLICY ON RATING OUTLOOK

PACRA assigns "positive" or "negative" outlook to its ratings to incorporate trends or risks, which are evolving and require a longer time frame for materialization. In case rating is expected to remain stable. PACRA does not mention this in explicit terms.

7. POLICY ON CODE OF ETHICS OF RATINGS AGENCY AND ITS STAFF

PACRA has an explicit code of ethics signed and adopted by each member of the agency. This includes 'Annual Compliance Certification' and 'Confidentiality Agreement' signed by each staff member as a token of the commitment to comply.

8. VALIDITY OF RATINGS

Our ratings are valid subject to formal review every twelve months, unless otherwise withdrawn or changed. This fact is externally communicated.

9. Definition of DEFAULT

PACRA considers any non-compliance with covenanted repayment obligations (in the case of a debt instrument) as an event of default unless the original trust deed provides flexibility to the trustee to defer payment obligations under specific identifiable circumstances.

10. PUBLICATION ON THE LIMITATIONS OF

- i) Rating Rigour**
- ii) Information adequacy**
- iii) Currency**

The methodology and process of credit rating undertaken by PACRA is publicly notified. The information is primarily obtained from the client and is then subjected to a rigorous in-house analysis. While PACRA does not conduct audit of the information it uses, it carries out reasonable due diligence to cross check and verify the reliability of information. The analysis of business and market risk also requires at times information from external sources mainly with regard to business and market risk. While PACRA uses only such sources which are considered reliable, efforts are made to ensure that conclusions drawn in reports prepared by such sources are subjected to careful scrutiny for purposes of risk assessment by PACRA. PACRA's ratings are local ratings and do not take into account the sovereign risk.



11. ASSURANCE OR GUARANTEE OF RATINGS

We do not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This policy, however, does not preclude us from developing prospecting assessments used in structured finance and similar transactions.

12. POLICY ON COMPLIANCE OFFICER

We have policies and procedures that specify the role of a compliance officer and the officer's reporting lines and compensation. Policies have also been instituted that encourage employees to report activities illegal, unethical, or in any way contrary to the CRA's code of conduct to the Compliance Officer.

13. SEPARATION OF ANALYST COMPENSATION AND REVENUE FROM ISSUER

The compensation of individual analysts is not based on the amount of revenue that the CRA derives from the issuers that the analysts rate or with whom the analysts regularly interacts.

(B). CRA INDEPENDENCE AND AVOIDANCE OF CONFLICT OF INTEREST

14. PUBLISHED POLICY ON DEPENDENCE ON THIRD PARTIES:

- iv) Auditors**
- v) Trustees**
- vi) Consultants**
- vii) Experts**

All information provided is taken at face value; we do not carry out any independent verification.

15. DISCLOSURE OF INTERESTS

For all rating assignments any conflict of interest that may exist at the organizational level is disclosed to PACRA's rating committee. In any event, there is a regulatory requirement in place, which prohibits PACRA to rate any corporate entity in which any director of PACRA is also on the board of such a corporate entity.

16. SEPARATION OF BUSINESSES

Under SECP * 's regulations, rating agencies in Pakistan are not allowed to handle any other business of rating clients.

17. DISCLOSURE OF GENERAL NATURE OF FEE ARRANGEMENTS WITH RATED ENTITIES

We disclose the general nature of fee arrangements with rated entities.

18. DISCLOSURE OF NON-RATING REVENUES FROM RATED ENTITIES

PACRA only provides rating services.

* Securities & Exchange Commission of Pakistan (Regulatory Authority)



19. TRADING POLICY FOR CRA EMPLOYEES

We maintain a trading policy for all our employees, which, amongst other things, prohibit employees from transacting in securities when they possess confidential information concerning the issuer.

20. POLICY ON EMPLOYEES DIRECTLY INVOLVED IN THE RATING PROCESS INITIATING, OR PARTICIPATING IN, DISCUSSIONS REGARDING FEES OR PAYMENTS WITH THE RATED ENTITY.

We have an explicit policy under the name of "Code of Conduct" regarding exclusion of rating analysts from business development activities.

(C). CRA RESPONSIBILITIES TO THE INVESTING PUBLIC, ISSUERS, AND REGULATORS

21. OWNERSHIP

The shareholding pattern is publicly disseminated, and is updated whenever there are any significant changes.

22. THE AGENCY'S BOARD AND MANAGEMENT STRUCTURE

22.1. BOARD OF DIRECTORS:

Profile

Name of Director

**Maj Gen (Retd) Zafar Abbas
Chairman**

General Abbas has had an illustrious career with the Pakistan Army spanning 30 years. He is the former Director General Anti-Narcotics Force and represented GoP in various conferences, forums and seminars around the world.

**Mr. Dawood Ghaznavi
Director**

Mr. Ghaznavi holds a masters degree in Engineering from Moscow and MPPM from Yale University USA. He has over 25 years of professional experience in the private, public, academic and civil society sectors in the US, Europe, South East and South Asia.

**Mr. Usman Haider
Director**

Mr. Usman Haider has extensive experience of the financial services sector.

**Mr. Farid Malik
Director**

Mr. Malik is the Nominee Director of M/s. Lahore Stock Exchange (Gurantee) Ltd. He graduated from the London School of Economics and a Chartered Financial Analyst (CFA) Charter-holder since 2001. Mr. Malik has a rich background of the securities/ capital market industry having previously worked at LSE and the Securities and Exchange Commission of Pakistan

**Mr. Ejaz Ullah Baig
Director**

Mirza Ejaz ullah Baig is the Nominee Director of M/s. Lahore Stock Exchange (Gurantee) Ltd. He holds B. Com. degree from the University of the Punjab. He has several years of experience in the field of capital/stock market.



**Mr. Shaikh Mohammad Iqbal
Director**

Mr. Iqbal is a graduate of Lahore University of Management Sciences (LUMS) and has extensive experience of the corporate sector in Pakistan.

**Mr. Adnan Afaq
Director & CEO**

Mr. Afaq is an FCA from England & Wales and Pakistan. He brings with him vast experience of the financial sector in Pakistan and the UK, spanning around 28 years. Prior to joining PACRA, Mr. Afaq was heading Askari Investments Management Limited.

22.2. MANAGEMENT:

Name & Designation	Profile
Mr. Adnan Afaq Managing Director	Please see 22.1
Mr. Muhammad Shahzad Saleem Chief Operating Officer (COO)	Member, Institute of Chartered Accountants of Pakistan

23. RATING COMMITTEE

Name & Designation	Profile
Mr. Adnan Afaq Managing Director.	Please see 22.1
Mr. Muhammad Shahzad Saleem Chief Operating Officer (COO)	Please see 22.2

In addition to these permanent members, Unit Head lead and support analysts (If any) are also members of the rating committee meetings of their respective clients.

24. WHAT RATINGS MEAN

PACRA’s standard credit rating indicates the probability of default of the rated instrument.

25. POLICY ON TIME TO COMMUNICATE RATINGS



We publicly release our ratings within 7 days of their being assigned and / or accepted. This is known up-front to the parties involved in the process. However, in the case of voluntary ratings, public dissemination is contingent on express written authorization by the client.

26. GUIDELINES ON RATING RATIONALE: TIMELINESS

PACRA's summary rating rationales are released simultaneously with the rating.

27. GUIDELINES ON RATING RATIONALE: CONTENT

PACRA rating rationale specifies all the factors, which are taken into account while arriving at the rating. The summary report with rating rationale also includes information on the company background, business risk factors, project risks, financial risk profile, prospects of the entity and other key rating issues as notified in PACRA's publicly disseminated rating methodologies.

28. PUBLICATION OF DEFAULT AND TRANSITION STATISTICS

Our transition and default statistics are compiled and disseminated regularly.

29. EXISTENCE AND PUBLICATION OF A POLICY ON UNSOLICITED RATINGS

PACRA does not assign unsolicited ratings and this policy has been publicly notified.

30. POLICY ON PRESERVING CONFIDENTIALITY OF PRIVILEGED INFORMATION (AND EXCEPTIONS FOR REGULATORY QUERIES)

PACRA does not disclose confidential information obtained during the rating exercise to anyone under any circumstances. Beyond ethical considerations, there is a contractual written commitment by PACRA to each of its clients.

(D). DISCLOSURE OF THE CODE OF CONDUCT AND COMMUNICATION WITH MARKET PARTICIPANTS

31. PUBLICATION OF THE CRA CODE OF CONDUCT

PACRA is obliged to comply with the provisions of SECP's code of conduct for rating agencies. This code is patterned on IOSCO's code.

32. EXISTENCE OF A DEDICATED FUNCTION/GROUP WITHIN THE ORGANIZATION CHARGED WITH INFORMING MARKET PARTICIPANTS AND PUBLIC REGARDING ANY QUESTIONS, CONCERNS, OR COMPLAINTS THAT THE CRA MAY RECEIVE.

We do not have such a group. Interaction with the media or market participants is generally handled by the Chief Executive and, in his absence, by the Chief Operating Officer. As the name of the concerned rating analyst is also mentioned in each credit rating report, the public has the option to contact the analyst directly.