



Criteria Release

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PACRA RELEASES ITS RATING TRANSITION METHODOLOGY

The Pakistan Credit Rating Agency (PACRA) releases its rating transition methodology. The methodology titled “**PACRA Rating Transition Methodology**”, after undergoing a stakeholder comment solicitation exercise, is available on PACRA’s website.

The methodology is employed to generate periodic transition studies for PACRA. Moreover, its purpose is to describe PACRA’s approach to measuring the performance of its ratings in a quantitative manner through the calculation of performance statistics – transition and default rates.

As per its methodology, PACRA conducts its transition studies on the basis of groupings called static pools or, alternatively cohorts. Static Pools could be constructed for any time period. The transition and default rates are calculated on a withdrawal-adjusted basis.

A clear and concise methodology of rating transition facilitates transparency and objectivity in performance presentation and appraisal. It also enables meaningful performance comparison with other credit rating agencies. However, notwithstanding the quality of the methodology, transition and default studies become more reliable and representative as the data set expands both in terms of the number of entities / issuers (*overall and sector-wise*) and the number of years in which the ratings remain outstanding.

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