

The Pakistan Credit Rating Agency Limited



Investment Advisor Rating *Assessment Framework*

Table of Contents

Introduction.....	2
Quality Rating Framework.....	2
1. Profile.....	3
2. Ownership	4
3. Governance.....	5
4. Management.....	6
5. Investment Risk Management..	8
6. Customer Relationship	9
7. Financial Risk.....	11

Summary

This methodology outlines PACRA's approach to assigning investment advisory rating. Investment Advisor Rating is an independent opinion on the relative management quality, customer service, and potential vulnerability to operational and investment challenges, of an investment advisor. When rating investment advisors, PACRA's approach is more skewed towards qualitative factors, including: i) Ownership, ii) Governance, iii) Management, iv) Investment Process, and v) Customer Relationship, while vi) Financial Risk is employed as the quantitative factor. PACRA also compares the standing of the investment advisor with peers in its relative universe. It is pertinent to note that Investment Advisory Rating is a management quality rating and does not reflect the investment advisor's ability to meet its financial obligations.

Analyst Contacts

Nusrat Abeer Hyder

+92-42-3586 9504

nusrat.abeer@pacra.com

The Pakistan Credit Rating Agency Limited

Head Office

FB1 Awami Complex

Usman Block, New Garden Town

Lahore

Phone +92 42 3586 9504

Karachi Office

PNSC Building, 3rd Floor

M.T. Khan Road, Lalazar, Karachi

Phone +92 21 35632601

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

Introduction

Scope: Opinion on quality and expertise deployed by an investment advisor

Scope: Investment Advisory Rating is a management quality rating to provide users with an independent opinion on the relative management quality, customer service, and potential vulnerability to operational and investment challenges, of conventional and digital investment advisor. It is important to understand that Investment Advisor Rating differs fundamentally from the traditional credit rating, which refers to an entity/issuer's ability to meet its financial obligations.

Overview: Investment advisors (hereon referred to as "IAs") are non-banking financial companies and are incorporated as public limited companies. The Non-Banking Finance Companies (Establishment And Regulation) Rules, 2003, define the scope of activities of an IA as "services provided for, managing discretionary or non-discretionary portfolios for both individual and institutional clients and include the business of advising others as to the value of securities or as to the advisability of investing in, purchasing or selling of securities, for remuneration". Unlike asset managers, IAs are not engaged in direct management of clients'/investors' funds.

Rating

Framework:

Qualitative and quantitative factors, all factors assessed on standalone *and* relative basis

Digital Investment Advisors: SECP, through its notification (S.R.O. 603(I)/2022), in 2022, has provided details of regulatory requirements for digital IAs. This methodology is applicable on digital IAs as well. For evaluation purposes, all factors that are considered for conventional IAs, will also be evaluated for digital IAs. In addition to that, PACRA will be incorporating specific regulatory requirements for digital IAs like minimum equity requirement and others. PACRA will look at the digital infrastructure, technological tools, front-end and back-end capabilities, customer interface and other systems in place to assess the overall capabilities and expertise of digital IAs.

Regulatory Landscape: IAs are regulated primarily by the Securities and Exchange Commission of Pakistan (SECP). The regulatory framework for IAs is observed to be less stringent relative to other NBFCs, including asset managers. The key regulations governing the activities of IAs include: Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, and Non-Banking Finance Companies and Notified Entities Regulations, 2008. Together, these lay out the scope of activities permissible to an IA, broad code of conduct to be observed by the companies and their employees, and minimum requirements pertaining to necessary disclosures, policies and procedures, systems, and other areas.

Given the nature of its operations, an IA is exposed to multiple risks including: i) absence of robust control framework to ensure true and fair deliverance of responsibilities to investors, ii) inadequacy of risk management infrastructure, iii) weak investment oversight, and iv) poor customer relationship management.

Quality Rating Framework

PACRA's rating framework for IA's focuses predominantly on qualitative factors. These are essential towards gaining a holistic view of all factors impacting an entity on a standalone basis and within its operating environment. Herein, PACRA looks at: i) Profile, ii) Ownership, iii) Governance, iv) Management, v) Investment Risk Management, and vi) Customer Relationship. Meanwhile, to ensure the element of objectivity in its assessment, PACRA incorporates vii) Financial Risk, as a quantitative factor. PACRA achieves a clearer perspective on relative positioning of an IA by comparing it to peers.

Profile	Ownership	Governance	Management	Investment Risk Management	Customer Relationship	Financial Risk
---------	-----------	------------	------------	----------------------------	-----------------------	----------------

1. Profile

Background:

Evolution and past strategy

1.1 Background: PACRA reviews the background of the IA to understand its evolution from where it started to where it currently stands. We analyze how and through what means the entity has achieved the desired expansion. PACRA looks at the progress of the entity from its historical past. The progress of the entity helps PACRA in determining the ability of the entity to successfully realize its strategy. The significant factor here for PACRA is to assess whether the entity has achieved the desired expansion through organic growth or acquisitions. Meanwhile, the source of funding for desired growth is also critical. PACRA considers IA’s experience in the industry and views favorably IAs that have gained several years’ track record, navigating through market cycles, developing sound processes and a well nurtured expertise to offer IA services.

Operations:

Analysis of scope of operations i.e., investment advisory services or investment management

1.2 Operations: PACRA looks at the scope of an IA’s operations i.e., whether it only offers investment advisory services or if it is also engaged in investment management. If an IA is only involved in investment advisory, the scale and complexity of its operations are likely to be different compared to an IA that provides investment management services only. The scope of PACRA’s assessment changes accordingly. Scale of operations is also assessed by looking at the IA’s market share, and, if applicable, Assets Under Management (AUM), as well as growth/reduction therein, overtime. This also depicts the standing of the IA amongst peers.

2. Ownership

Ownership Structure:

Identification of man at the last mile.

2.1 Ownership Structure: The assessment of ownership begins by looking at the legal status of the IA. PACRA conducts an in-depth study of the shareholding mix of the IA in order to disentangle structure of ownership. Key factors that are considered for this purpose, inter-alia, include: i) shareholding structure which includes whether the individual(s) own the entity directly or indirectly, ii) foreign or local shareholders, iii) whether the entity is owned by a single group or through a combination of entities and individuals, and iv) whether it is part of a group or a standalone entity. All these deliberations are done to identify the person at the last mile.

Stability:

Succession planning at shareholder level

2.1 Stability: In order to analyze the stability of ownership, a particularly important factor to be taken into account is succession planning. An integral part of our background analytical work is an attempt to assess whether, and under right of succession, the entity's prospects would be supported and by whom. This is particularly relevant in case of family-owned businesses and joint ventures, whose failures could have a contagious effect on the sustainability of the entity. A stable ownership with clarity in succession, perhaps major stakes residing with one family or group, is considered positive for ratings. On the contrary, high free float (in case of listed concerns) leads to risk of take over and may anchor lower ratings.

Financial Institutions which are owned by private individuals and families: On the one hand, the concentration of equity ownership might indicate that the majority shareholders have a strong vested interest in creating long-term value and closely monitoring management behavior. On the other hand, a potential concern in such cases is that the owners might rely heavily on funds from the entity as source of income or to fund other business activities, potentially undermining the financial stability of the entity.

Business Acumen:

Knowledge, skills and experience of key shareholders

2.2 Business Acumen: PACRA gauges the sponsors' business acumen. Having a strong business acumen set has been critical for sustainable success. PACRA analyzes business acumen through two primary areas: i) industry-specific working knowledge, and ii) strategic thinking capability. Meanwhile, a deep and applicable understanding of the system is critical in order to determine how a business achieves its goals and objectives. The scope includes the assessment and understanding of how the sponsors of the entity deliberate over and successfully make the right business decisions. In case of digital IA, PACRA evaluates the owner's experience in digital services to ascertain their ability to provide strategic guidance. This is especially critical in case of newly formed digital IAs.

Financial Strength:

Willingness and ability of key shareholders to provide extraordinary financial support

2.3 Financial Strength: PACRA analyzes the ability and willingness of the major shareholders to support the entity whether it is conventional or digital, both on a continuing basis, and support in times of crisis. While the stipulated minimum capital requirement for IAs is lower compared to other regulated financial services providers, PACRA recognizes the IA may need additional support to sustain operations particularly during initial years of operations, while the IA builds its client base. While analyzing financial strength, PACRA gives due importance to: i) behavior of the major shareholders to provide timely and comprehensive support in times of need in the past, ii) prospective view of key shareholders, incase such need arises, iii) other businesses of sponsors, and iv) the level of commitment of the major shareholder with the entity in providing capital support. In case of no explicit commitment, PACRA attempts to form a view on availability of

likely support. Support, in this context, refers strictly to financial support, rather than operational support.

Information Required on Ownership:

- Shareholding pattern
- Details of sponsor’s other businesses
- Sponsor’s financial information
- Shareholder’s past experience in digital or fintech space, if applicable
- Past pattern of sponsor support

3. Governance

3.1 PACRA’s assessment of governance involves both systematic analyses of governance data and information, and the more contextual review of the entity’s governance practices. PACRA considers four main factors while assessing the governance structure of the entity: i) board structure, ii) members profile, iii) board effectiveness, and iv) transparency.

Board Structure:

Composition of board in terms of size, independence and committees

3.2 Board Structure: This comprises assessment of board on various criteria including overall size, presence of independent/ non-executive members having limited relationship with the sponsoring group of the entity, duration of board members’ association with the entity, overall skill mix and structure of board committees. Compliance with applicable regulations is examined. The chairman of the Board is expected to have a non-executive role. PACRA also examines the independence of governance from major shareholders. Meanwhile, the presence of board committees to provide support to the board is viewed positively.

Members Profile:

Relevance and diversity of board members’ skills, knowledge and experience

3.3 Members’ Profile: PACRA collects information regarding profile and experience of each board member. This helps in forming an opinion about overall quality of the board. In addition to compliance with minimum regulatory requirements, PACRA looks at overall experience profile of board members. While diversification in terms of knowledge background and experience of the board members is considered a positive, a fair number of board members should have related experience.

Board

Effectiveness:

Extent to which board properly discharges its responsibilities

Transparency:

Quality and extent of financial and non-financial information disclosure to stakeholders

3.4 Board Effectiveness: In PACRA’s view, the board plays a crucial role in working with the management in steering the entity to its performance objectives and to provide critical and impartial oversight of management performance. PACRA assesses how effectively board members are able to discharge this responsibility by analyzing the type and extent of information shared with board members, attendance of board meetings and quality of discussions taking place at board and committee levels.

3.5 Transparency: Quality of governance framework is also assessed by the procedures designed by the board to ensure transparent disclosures of financial and other information by conventional and digital IAs. This can be achieved through: i) ensuring independence of the audit committee, ii) strengthening the quality of internal audit function, which may be in-house or outsourced, and iii) improving quality of external audit by engaging auditors which are included in the State Bank of Pakistan’s panel of auditors and/or have a satisfactory QCR rating. Formulation of internal policies to establish a broad control framework for key areas is considered important. This includes policies overseeing investment, risk management, segregation of duties and information barriers between various functions of the IA, and safeguarding the flow of sensitive information within the company by establishing firewalls as necessary.

***Accounting Quality:** PACRA reviews the quality of an IA’s accounting policies as reflected in its notes to accounts, auditors’ comments and other disclosures which are part of its financial statements. Adherence to accounting standards is assessed, particularly for unlisted concerns.*

Information Required on Governance:

- Details of board committees including TORs
- Profile of board members
- Information packs used by the board
- Minutes of board meetings
- Internal auditor detail (if outsourced)
- External auditor detail
- Board-approved policies related to: i) investment, ii) risk management, iii) segregation of duties and functions, and iv) safeguarding the flow of sensitive information by establishment of firewalls.

4. Management

4.1 Human expertise play a critical role in investment advisory. The efficiency and reliability of processes at all levels of the organization largely rely on the effectiveness of the team set-up and experience of the people involved. An important aspect of PACRA’s analysis is therefore management team’s ability to conceive and execute stated strategies, ensure efficient coordination and oversight.

4.2 Organizational Structure: PACRA’s analysis of the organizational structure focuses on how the IA is organized keeping in view the scope of operations and diversity of product base. PACRA believes that departments should be structured keeping in view segregation of duties and importance of the functions to be performed. In this respect, functional separation of front office

Organizational Structure:

Alignment of organogram with IA size, nature of

business and requirements

Management Team: Relevance and diversity of skills, knowledge and experience of top management

from middle and/or back offices is considered important. Further, it is key for PACRA that the risk function of an IA be separate and independent.

4.3 Management Team: PACRA’s evaluation of human resources is based on an objective criterion that focuses on the back ground of management and staff, both individually and collectively. Assessment is based on the strength of the management team relative to entity size, years of relevant work experience, prior track record and tenure with the company, and roles and responsibilities and segregation thereof, each functional area is covered including portfolio management, risk management, investment research, sales and distribution, marketing, internal audit and compliance. HR turnover is reviewed to determine the stability of critical staff, with particular focus on key departments. It is important for IAs to ensure adequate knowledge and training of staff/employees when dealing with clients, potential clients or managing client portfolios and assets. Similarly, for digital IAs management team is evaluated and more attention is paid to their experience in digital services.

***Key-person Risk:** Key-person risk occurs when an entity is heavily reliant on an individual, or a limited number of individuals, who are accepted as the key holder(s) of important intellectual capital, knowledge or relationships. While this type of risk is more commonly identified in small to medium- sized entities, it can also exist in larger entities and is relatively challenging to benchmark, and hence, mitigate. This is risk is important in case of digital IAs since dependence on key individuals is usually high. PACRA attempts to identify the extent to which an entity is dependent on the expertise of such individual(s) and to ensure policies exist for succession/redundancy to limit the adverse impact of such a person unexpectedly leaving, on the entity.*

Management Effectiveness: Extent to which top management properly discharges duties and role of technology infrastructure therein

4.4 Management Effectiveness: Optimum discretionary portfolio management requires adequate technological resources, whether internal, provided by the parent company or affiliate, and/or an external third party (e.g., vendors). High integration of technology into management systems is highly desirable and PACRA places high value on MIS and considers such MIS superior which are generated directly from the system. Another key measure of management effectiveness is its track record of delivering on past projections and sticking to strategies.

***MIS:** System generated – real-time based – MIS reports add more efficiency in decision making whether related to operational, financial or strategic issues. PACRA evaluates the quality and frequency of the MIS reports used by the management team to ascertain that decision-making within the entity is information-based.*

Control Environment: Robustness of systems and processes

4.5 Control Environment: An analysis of the overall control environment of the IA helps in identifying the procedures, control centers and reporting lines, in order to manage conflicts of interest, meet fiduciary responsibility, and to verify the accuracy of financial and accounting information prepared for stakeholders. This analysis would assess the strength of the overall compliance and control environment beyond regulatory requirements. Adherence to Board policies as well as well-documented and comprehensive policies at management level, including pricing policies, policies on handling discretionary vs. non-discretionary mandates, and establishment of SOPs related to client vetting and KYC are viewed as positive factors for the

rating. Maximum transparency regarding trading and dealing practices and compliance with applicable regulations also provides valuable insight into the monitoring and control environment. Appropriate measures should be in place to ensure that all transactions/trades are conducted in the best interests of investors. With regulatory requirements being relatively less stringent for IAs, self-regulation gains prominence. Thus, the IA's compliance function would be evaluated on an enterprise-wide basis. More value would be given to a compliance function integrated into the system of the company.

In case of digital IA, reliability of digital infrastructure is critical. Therefore, for digital IAs, PACRA pays more attention to core software deployed, frontend and back-end applications, vendor details for software services, user interface and channels used by the customers, in-house development capabilities, system back-up and business continuity plan and measures taken for data security. Similarly, risk management mechanism and controls established are examined.

Operational Risk: *Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. An analysis of the company's Disaster Recovery (DR) procedures, infrastructure security and monitoring of third-party activities helps to determine the viability of the operational control environment against unanticipated business disruptions, personnel slippage and inadvertent data entry errors. In addition, PACRA evaluates capacity to promote ethics and monitor enforcement thereof.*

Information Required on Management:

- Latest organogram
- Details of management committees
- Profile of senior management
- Redundancy pattern
- MIS reports
- Minutes of management committees' meetings
- Policies related to: i) pricing, ii) handling of discretionary vs. non-discretionary mandates, and iii) client vetting and SOPs for KYC
- Details of digital platform implemented
- Regulatory filings and compliance disclosures

5. Investment Risk Management

Investment Risk Management

Framework: Quality of policies and systems surrounding credit, liquidity and market risk management

5.1 Research and Analysis: Strong investment research and analytical frameworks are critical for prudent investment advisory and management. The degree of independence enjoyed by the research team in its activities and recommendations is an important determinant in assessing its effectiveness. The quality, reliability, completeness and relevance of quantitative models and statistical techniques employed, complexity and extent of risk analysis and ratios commensurate with the investment scheme enable us to assess the overall quality and viability of the various tools used by the research department in formulating investment-related recommendations / decisions. Likewise, the extent and quality of the research output is assessed to determine the relevance and timeliness of the research to the IA's activities. Lastly, analyzing how research is

documented and archived for future reference is important to gauge the quality and completeness of the research database for future use

5.2 Investment Decision Making: PACRA looks at the IA’s investment committee (hereon referred to as “IC”), or equivalent body, to assess who makes investment decisions as well as how the decisions are formulated, reasoned and analyzed. As the IC is the primary point of reference for investment decisions made regarding discretionary portfolios, PACRA looks at the composition of IC, experience of its members, frequency of meetings and review of investment committee packages are reviewed to determine the overall effectiveness of decision making process. PACRA also evaluates how well the policies approved at Board and management level are reflected in the IC’s decision-making and the extent of usage of output of the research function is incorporated by the IC into its deliberation and decision-making.

5.3 Risk Management Function: PACRA looks at the risk monitoring and control framework of an IA. Apart from the extent of independence of the risk function, PACRA looks at the policies, procedures, strategy and accountability at each level. Coverage and appropriateness of risk indicators is analyzed, including pre-defined explicit and meaningful limits pertaining to exposure towards certain sectors, clients or products. Meanwhile, reconciliation between expected and actual risk levels analysis of discrepancies and corrections, is considered equally important. PACRA looks for use of appropriate analytical tools and techniques to aid scenario analysis, stress-testing and fair valuation of securities where market values are unknown. Reporting systems and investment in technology, which support frequent reporting of risk-related information to management is important. PACRA looks at the reports generated in this regard and reviews their content, quality, and comprehensiveness.

5.4 Investment Risk Management: The nature and scope of risk management in IAs can vary, depending on the range of services offered by the IA. This could be just investment advisory to management of discretionary and non-discretionary client portfolios. Where an IA is managing discretionary and/or non-discretionary client portfolios, investment risk management permeates the entire investment process, and consists of two pillars: macro-economic risks and portfolio risks. PACRA assesses the steps being taken and the systems in place (including MIS) to monitor/mitigate these under three main categories: i) credit risk, ii) liquidity risk, and iii) market risk.

Information Required on Investment Risk Management:

- Risk Management tools and techniques
- Models used for security valuation
- Risk management reports
- Profile of IC members
- IC information packages
- IC meeting minutes

6. Customer Relationship

**Investor Services:
Relationship**

6.1 Investor Services: PACRA examines the investor services platform of an IA for evaluating overall service quality and resource availability for investors education and facilitation. Examining

management system,
capacity and quality

client relationships focuses on the IA's ability to manage relations through determination of investment objectives and a thorough understanding of constraints, and then to day-to-day relationships, whilst ensuring confidentiality. PACRA evaluates the IA's capacity to provide appropriate responses tailored to client requests, as well as keeping abreast of local regulations. Criteria are, inter alia, staffing, technical knowledge/training of sales people, systems such as Client Relationship Management (CRM tool), value-added services and access to information. In case of digital IAs, PACRA evaluates the channels used for client on boarding, regular interaction with clients, communication channels, value adding services and other aspects of client engagement.

6.1.1 A formal mechanism to solicit feedback from clients and handle complaints must also be in place. Nature and number of complaints received is an important indicator to measure the quality of services provided and resultant client satisfaction. PACRA also looks at the IA's client attrition overtime on a standalone basis and comparison of the same to industry peers, as a yardstick to judge the quality and effectiveness of investor services.

6.2 Extent of Automation/Integration: For an IA whether conventional or digital, to be able to service clients efficiently, the systems' backbone needs to be robust. The systems deployed need to be capable of capturing, processing and reporting all transactions of all clients with a zero or near-zero error rate. PACRA's evaluation of the infrastructure framework consists of an assessment of the infrastructure deployed, the extent of automation and integration, type and number of errors encountered, access policies to the computer systems and data, and the quality of reports generated by the MIS. Further, adequate systems infrastructure including connectivity, communication networks, back-up procedures and disaster recovery to ensure uninterrupted operations are viewed positively by PACRA.

Investor Reporting:
Quality, accuracy
and frequency of
information sharing
with investors

6.3 Investor Reporting: Much of the information provided to investors is communicated through regular reporting, which PACRA examines in light of its comprehensiveness, clarity, consistency, accuracy and timing. This capacity to adapt reports to meet varied investors' requirements is also examined. Beyond mere reporting, PACRA believes that all IAs should offer performance presentations and performance attribution reports to their clients on a widespread and timely basis. The agency, therefore, looks at accuracy of performance attribution and consistency with the investment process. PACRA also reviews the resources and the procedures used in the production of reports, particularly with respect to front-office independence and to data accuracy. For digital IAs, PACRA evaluates frequency and mode of information provided to clients, its accuracy and effectiveness.

Information Required on Customer Relationship:

- Mechanism for client communication, feedback and complaint handling
- Standard account opening form/mandates
- Standard customer contracts, including: i) investment advisory, ii) underwriting (if applicable), and iii) market marking (if applicable)
- Number of active branches and sales staff per branch
- Turnover rate of sales staff
- Customer retention/attrition rate

7. Financial Risk

7.1 Degree of Concentration: Concentrations are analyzed at two levels; revenue and investor. The yardstick is the contribution of top ten investors in the overall portfolio and revenue, respectively. The higher the rating, the lower the concentration at both these levels. The fee revenue from retail investors is pivotal to PACRA’s comfort, especially when it provides complete coverage against the company’s operating expenses.

7.2 Financial Performance: PACRA looks at financial position of the IA with an objective to assess financial performance and sustainability. Several aspects of the company’s income statement are considered, including growth/stability of core revenue stream (i.e., management fees), other sources of income, expense trends, and overall profitability level. Leveraging levels are assessed relative to industry norm. The minimum equity requirement of PKR 30mln by the regulator (as per SECP Non-Banking Finance Companies and Notified Entities Regulations, 2008) is ensured and return on equity is analyzed in conjunction with peer to make a view as to the shareholders’ satisfaction with the investment.

7.3 Performance against benchmark: PACRA evaluates the tools and mechanisms set in place by the IA to gauge its performance. The benchmark(s) specified by the IA to measure its own performance are reviewed and proximity of actual performance to targets is assessed. Herein, existence of tracking mechanisms which measure performance in various areas relative to pre-defined objective and measurable benchmarks, is viewed favorably.

7.3.1 For IAs involved in investment management, performance of discretionary and non-discretionary portfolios is evaluated separately. In case of discretionary portfolios, investor objectives, constraints and preferences determine the range of portfolio management strategies and the degree of adherence to these overshadows actual performance. Meanwhile, for non-discretionary portfolios, returns are measured against an appropriate benchmark portfolio. Achieving competitive investment results contributes positively to the standing of the IA.

Information Required on Performance:

- Tools for internal performance monitoring
- Financial statements for latest three annual financial periods and latest eight financial quarters
- Financial projections for upcoming three annual financial periods

Financial Performance:
Assessment of financial position to evaluate financial performance and sustainability

Investment Advisor Rating

An independent opinion on the quality of management, customer service and investment process

Scale	Definition
AM1 (ia)	Very high quality of management, customer service and investment process
AM2++ (ia) AM2+ (ia) AM2 (ia)	High quality of management, customer service and investment process
AM3++ (ia) AM3+ (ia) AM3 (ia)	Good quality of management, customer service and investment process
AM4++ (ia) AM4+ (ia) AM4 (ia)	Adequate quality of management, customer service and investment process
AM5 (ia)	Weak quality of management, customer service and investment process

Outlook (Stable, Positive, Negative, Developing)

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch

Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn

A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization

A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.