




THE PAKISTAN CREDIT RATING AGENCY

**Code of Conduct |
Rating Committee (RC)**

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- 1. OBJECTIVE**
 - 1.1** To establish a Code of Conduct to govern the Rating Committee and oversee that RC follows the Code of Conduct in letter and in spirit.
- 2. APPLICABILITY**
 - 2.1** RC Members (Internal and External)
- 3. RC CONSTITUTION**
 - 3.1 PACRA shall:**
 - 3.1.1** ensure that the criterion for constitution of the rating committees is capable to promote continuity and to discourage bias in the rating process; [CRC Regulations, 2016:11(A)(h)]
 - 3.1.2** establish a rating committee consist of at least five members and duly approved by Board of directors; [CRC Regulations, 2016 :11(C)(e)]
 - 3.1.3** ensure that the members of rating committee including external members are fit and proper as prescribed in Annexure C [CRC Regulations, 2016 :11(C)(f)]
 - 3.1.4** ensure that at least one-third or two members of the rating committee, whichever is higher, including the Chairman of the committee are external members who are appointed with the prior approval of Commission to ensure objectivity and effectiveness of the rating committee; [CRC Regulations, 2016 :11(C)(g)]
 - 3.1.5** ensure that any remuneration/fee arrangement for external member, if any have been duly approved by its board of directors and shall not be construed in any manner as employment of rating company: [CRC Regulations, 2016 :11(C)(h)]
 - 3.1.6** ensure that the remuneration/fee arrangement for external member of the rating committee shall not be linked to the business performance of the credit rating company and must be arranged so as to ensure their independence [CRC Regulations, 2016 :11(C)(i)]
 - 3.1.7** ensure that the quorum of the rating committee shall be at least three members including one external member as chairman of the rating committee;

Provided that if the quorum is not present due to an emergency, the chairman of the rating committee, in consultation with at least one member of the rating committee, may take decisions and record in writing the decisions and the circumstances of the emergency and circulate the document to other members of the rating committee; [CRC Regulations, 2016 :11(C)(k)]
 - 3.1.8** it has not appointed any individual as a member of a rating committee who has or is perceived to have a business development function of the credit rating company; or who initiates or participates in a discussion regarding fee or payment with any customer of the credit rating company; [CRC Regulations, 2016 :12(2)(c)]
- 4. ETHICAL CONDUCT**
 - 4.1 RC Members shall:**
 - 4.1.1** fulfill their obligations in a fair, efficient, transparent and ethical manner and render high standards of services in performing its functions and obligations; [CRC Regulations, 2016 :11(A)(a)]
 - 4.1.2** ensure that they maintain sufficiently high level of analytical and monitoring standards and possess the requisite skill and expertise. [CRC Regulations, 2016 :11(A)(d)]

4.1.3 assist investors and other users of rating in developing a greater understanding of the rating by disclosing in plain language among other things, the nature and limitations of the ratings and the risk of unduly relying on them to make investment or other financial decisions; [CRC Regulations, 2016 :11(A)(f)]

4.1.4 refrain from soliciting money, gifts or favors from anyone with whom the credit rating company conducts business; [CRC Regulations, 2016 :11(A)(q)]

4.1.5 ensure that analysts follow the defined rating criteria, methodologies and procedures carefully, uniformly and in a consistent manner; [CRC Regulations, 2016 :11(C)(d)]

4.1.6 ensure that rating committee shall assign and decide on each credit rating and all rating decisions, including decisions regarding changes in the ratings; [CRC Regulations, 2016 :11(C)(j)]

4.1.7 ensure that the rating committee act with due care, skill and diligence in carrying out its duties and responsibilities; [CRC Regulations, 2016 :11(C)(l)]

4.1.8 ensure that rating decisions are consistent with the methodologies, procedure and process used in the rating; [CRC Regulations, 2016 :11(C)(m)]

4.1.9 ensure that proper record of meetings of rating committee including detailed minutes and its rating decisions are maintained along with rational for assigning the rating, which shall be available for review and inspection by the Commission [CRC Regulations, 2016 : 11(C)(n)]

4.1.10 ensure that the analysts submit their initial analysis reports along with the initial indicative ratings to the rating committee. [CRC Regulations, 2016 :11(C)(t)]

4.2 RC members shall not:

4.2.1 communicate the information, acquired by them for use for rating purposes, to any other person except where required under law to do so. [CRC Regulations, 2016 :10(5)]

4.2.2 issue rating for entities or obligations for which they do not have appropriate information, knowledge and expertise; [CRC Regulations, 2016 :10(7)(e)]

4.2.3 make unsubstantiated claims, in order to induce customers, about qualifications of its professional staff or its capabilities to render certain services or its achievements concerning services rendered to other customers; [CRC Regulations, 2016 : 10(7)(g)]

4.2.4 get involved in acts of frauds, misrepresentations, oppressive or unethical practices, nor shall solicit the customers of any other rating company on implicit or explicit assurance of higher rating or any other undue benefit; [CRC Regulations, 2016 :10(7)(h)]

4.2.5 willfully make false statements or conceal any material fact in any document, report or statement furnished to the Commission; [CRC Regulations, 2016 :10(7)(j)]

4.2.6 make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating [CRC Regulations, 2016 :10(7)(k)]

5. CONFLICT OF INTEREST

5.1 RC Members shall ensure that:

5.1.1 it does not hold or transact in trading instruments presenting a conflict of interest with credit rating company. [CRC Regulations, 2016 :10(7)(b)]

5.1.2 directors on PACRA's board shall not be involved in the rating process. [CRC Regulations, 2016 :12(2)(a)]

5.1.3 they are able to perform its duties free of undue intervention or influence from PACRA's shareholders, its management or its board of directors; [CRC Regulations, 2016 :12(2)(b)]

5.1.4 PACRA has included a statement in each rating report that PACRA, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the rating done by them. In case there is any conflict of interest, PACRA shall disclose the fact in the respective rating report, nature of such conflict of interest and its impact on the rating grade assigned; [CRC Regulations, 2016 :12(2)(e)]

5.1.5 the analysts and members of the rating committee including the external members have submitted statement about all the conflicts of interest, including those of their family members, if any, to the officer designated by the credit rating company for the purpose; and

Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee; [CRC Regulations, 2016 :12(2)(k)]

5.1.6 they have disclosed, before commencement of the rating process, relationship, if any, with the rating entity or any of its substantial shareholder and director or any other interest in the entity to the officer designated by the credit rating company for this purpose. [CRC Regulations, 2016 : Annexure-I (3)(iii)]

5.2 An RC participant shall not participate or otherwise influence the determination of the PACRA's rating of any particular entity or instrument, if he/she:

5.2.1 owns securities of such entity, other than holdings in diversified collective investment schemes; [CRC Regulations, 2016 : Annexure-I (3)(ii)(a)]

5.2.2 owns securities of any entity related to such rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes; [CRC Regulations, 2016 : Annexure-I (3)(ii)(b)]

5.2.3 has had a recent employment or other significant business relationship with such rated entity that may cause or may be perceived as causing a conflict of interest; [CRC Regulations, 2016 : Annexure-I (3)(ii)(c)]

5.2.4 has an immediate relation (i.e., a spouse, partner, parent, child, or sibling) who currently works for such rated entity; or [CRC Regulations, 2016 : Annexure-I (3)(ii)(d)]

5.2.5 has, or had, any other relationship with such rated entity directly or indirectly that may cause or may be perceived as causing a conflict of interest. [CRC Regulations, 2016 : Annexure-I (3)(ii)(e)]

6. Confidentiality

6.1 RC members shall:

6.1.1 not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer. [CRC Regulations, 2016 :10(7)(d)]

6.1.2 ensure strong firewalls to prevent disclosure or use of the said non-public

information by the related parties or their personnel in cases where a credit rating company is a parent, subsidiary, joint venture partner or affiliate of any organization that might benefit from the non-public information available with the credit rating company; [CRC Regulations, 2016 :11(A)(m)]

6.1.3 except as required under these regulations and without obtaining prior written approval of its customers, not share with or disclose to media or any other party including its other customers, any confidential information about its customers, which has come to its knowledge in the course of the rating process; [CRC Regulations, 2016 :11(A)(o)]

6.1.4 not share the non-public information known to them due to their position in the credit rating company with outsiders and irrelevant employees; [CRC Regulations, 2016: Annexure I- 3 (i)(a)]

6.1.5 not use such non-public information for their personal benefits or for the benefits of any of their relatives, friends and associates or for any other purpose except the conduct of the credit rating company's business; [CRC Regulations, 2016: Annexure I- 3 (i)(b)]

6.1.6 not disclose any non-public information about rating opinions or possible future rating actions by the credit rating company, except to the rating entity/issuer or its designated agents; [CRC Regulations, 2016: Annexure I- 3 (i)(c)]

6.1.7 not disclosure any confidential information about its clients, which has come to their knowledge in the course of the rating process, to any person including other clients and press without prior written approval of such client, except when such disclosure is required under any law; [CRC Regulations, 2016: Annexure I- 3 (i)(d)]

6.1.8 not use or share confidential information for the purpose of trading in securities or for any other purpose except the conduct of the credit rating company's business; and [CRC Regulations, 2016: Annexure I- 3 (i)(e)]

6.1.9 fully adhere to the credit rating company's policy for trading in securities by its employees. [CRC Regulations, 2016: Annexure I- 3 (i)(f)]

7. CODE ADMINISTRATION

7.1 **Interpretation:** Competent Authority is responsible for interpreting and applying the Code to specific situations when questions arise.

7.2 **Review:** Compliance Officer would review this code (on annual basis) for its appropriateness and sufficiency. However, any change regarding applicable legislation shall be immediately updated. M/s Grant Thornton Anjum Rahman, Chartered Accountants (GTAR), would review the actual applicability of this code on semi-annual basis.

7.3 **Approval:** This Code is approved by the Board of Directors and the CEO is authorized to sign it.

7.4 **Investigations of Suspected Violations:** All reported violations shall be promptly investigated and treated confidentially to the extent reasonably possible.

7.5 **Disciplinary Protocol:** Compliance with the Codes and PACRA Policies shall be monitored on periodic basis:

- *Those who come within the bounds of this Code shall cooperate fully to provide truthful, accurate information*

7.6 **Dissemination:** This code shall be shared with Board Members.