

PACRA COMPLIANCE STATUS REPORT ON ACRAA CODE OF CONDUCT



THE PAKISTAN CREDIT RATING AGENCY LIMITED

COMPLIANCE STATUS REPORT

ACRAA (the Association of Credit Rating Agencies in Asia) is a developmental and capacity building forum organized by 30+ regional credit rating agencies with the major objective of promoting the adoption of best practices and common standards that ensure high quality and comparability of credit ratings throughout the region, following the highest norms of ethics and professional conduct. ACRAA, in December 2008, published a Handbook on International Best Practices in Credit Ratings. In April 2011, this publication was revised on the lines of the IOSCO Code of Conduct and ACRAA issued a Code of Conduct for CRAs. PACRA 2013 compliance status on ACRAA Code of Conduct is enclosed:

CONTENTS

- Quality & Integrity of the Rating Process
- Independence & Avoidance of Conflicts of Interest
- Responsibilities to the Investing Public & Issuers
- Disclosure of the Code of Conduct and Communication with Market Participants

Questionnaire for Reporting Compliance with ACRAA's Fundamentals for Domestic Credit Rating Companies

Name of CRA	The Pakistan Credit Rating Agency (PACRA)
Date of Report	January 18, 2013

1. Quality and Integrity of the Rating Process

A. Quality of the Rating Process

1.1 A Domestic Credit Rating Agency [DCRA] should adopt, implement and enforce written procedures to ensure that the opinions it disseminates are based on a thorough analysis of all information known to the DCRA that is relevant to its analysis according to the DCRA's published rating methodology.

Compliant (Y/N)	Comments (if any)
Y	

1.2 A DCRA should use rating methodologies that are rigorous, systematic and, where possible, result in ratings that can be subjected to some form of objective validation based on historical experience.

Compliant (Y/N)	Comments (if any)
Y	

1.3 In assessing an issuer's creditworthiness, analysts involved in the preparation or review of any rating action should use methodologies established by the DCRA. Analysts should apply a given methodology in a consistent manner, as determined by the DCRA.

Compliant (Y/N)	Comments (if any)
Y	

1.4 Credit ratings should be assigned by the DCRA and not by any individual analyst employed by the DCRA; ratings should reflect all information known, and believed to be relevant, to the DCRA, consistent with its published methodology; and the DCRA should use people who, individually or collectively (particularly where rating committees are used) have appropriate knowledge and experience in developing a rating opinion for the type of credit being applied.

Compliant (Y/N)	Comments (if any)
Y	

1.5 A DCRA should maintain internal records to support its credit opinions for a reasonable period of time or in accordance with applicable law.

Compliant (Y/N)	Comments (if any)
Y	

1.6 A DCRA and its analysts should take steps to avoid issuing any credit analyses or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of an issuer or obligation.

Compliant (Y/N)	Comments (if any)
Y	

1.7 A DCRA should ensure that it has and devotes sufficient resources to carry out high-quality credit assessments of all obligations and issuers it rates. When deciding whether to rate or continue rating an obligation or issuer, it should assess whether it is able to devote sufficient personnel with sufficient skill sets to make a proper rating assessment, and whether its personnel likely will have access to sufficient information needed in order make such an assessment. A DCRA should adopt reasonable measures so that the information it uses in assigning a rating is of sufficient quality to support a credible rating. If the rating involves a type of financial product presenting limited historical data (such as an innovative financial vehicle), the DCRA should make clear, in a prominent place, the limitations of the rating.

1.7-1 A DCRA should establish a review function made up of one or more senior managers with appropriate experience to review the feasibility of providing a credit rating for a type of structure that is materially different from the structures the DCRA currently rates.

1.7-2 A DCRA should establish and implement a rigorous and formal review function responsible for periodically reviewing the methodologies and models and significant changes to the methodologies and models it uses. Where feasible and appropriate for the size and scope of its credit rating services, this function should be independent of the business lines that are principally responsible for rating various classes of issuers and obligations.

1.7-3 A DCRA should assess whether existing methodologies and models for determining credit ratings of structured products are appropriate when the risk characteristics of the assets underlying a structured product change materially. In cases where the complexity or structure of a new type of structured product or the lack of robust data about the assets underlying the structured product raise serious questions as to whether the DCRA can determine a credible credit rating for the security, DCRA should refrain from issuing a credit rating.

Compliant (Y/N)	Comments (if any)
Y	

1.8 A DCRA should structure its rating teams to promote continuity and avoid bias in the rating process.

Compliant (Y/N)	Comments (if any)
Y	

B. Monitoring and Updating

1.9 A DCRA should ensure that adequate personnel and financial resources are allocated to monitoring and updating its ratings. Except for ratings that clearly indicate they do not entail ongoing surveillance, once a rating is published the DCRA should monitor on an ongoing basis and update the rating by:

- a. regularly reviewing the issuer's creditworthiness;
- b. initiating a review of the status of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action (including termination of a rating), consistent with the applicable rating methodology; and,
- c. updating on a timely basis the rating, as appropriate, based on the results of such review.

1.9-1 If a DCRA uses separate analytical teams for determining initial ratings and for subsequent monitoring of structured finance products, each team should have the requisite level of expertise and resources to perform their respective functions in a timely manner.

Compliant (Y/N)	Comments (if any)
Y	

1.10 Where a DCRA makes its ratings available to the public, the DCRA should publicly announce if it discontinues rating an issuer or obligation. Where a DCRA's ratings are provided only to its subscribers, the DCRA should announce to its subscribers if it discontinues rating an issuer or obligation. In both cases, continuing publications by the DCRA of the discontinued rating should indicate the date the rating was last updated and the fact that the rating is no longer being updated.

Compliant (Y/N)	Comments (if any)
Y	

C. Integrity of the Rating Process

1.11 A DCRA and its employees should comply with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.

Compliant (Y/N)	Comments (if any)
Y	

1.12 A DCRA and its employees should deal fairly and honestly with issuers, investors, other market participants, and the public.

Compliant (Y/N)	Comments (if any)
Y	

1.13 A DCRA's analysts should be held to high standards of integrity, and a DCRA should not employ individuals with demonstrably compromised integrity.

Compliant (Y/N)	Comments (if any)
Y	

1.14 A DCRA and its employees should not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This does not preclude a DCRA from developing prospective assessments used in structured finance and similar transactions.

1.14-1 A DCRA should prohibit its analysts from making proposals or recommendations regarding the design of structured finance products that a DCRA rates.

Compliant (Y/N)	Comments (if any)
Y	

1.15 A DCRA should institute policies and procedures that clearly specify a person responsible for a DCRA's and a DCRA's employees' compliance with the provisions of a DCRA's code of conduct and with applicable laws and regulations. This person's reporting lines and compensation should be independent of a DCRA's rating operations.

Compliant (Y/N)	Comments (if any)
Y	

1.16 Upon becoming aware that another employee or entity under common control with the DCRA is or has engaged in conduct that is illegal, unethical or contrary to the DCRA's code of conduct, a DCRA employee should report such information immediately to the individual in

charge of compliance or an officer of the DCRA, as appropriate, so proper action may be taken. A DCRA's employees are not necessarily expected to be experts in the law.

Compliant (Y/N)	Comments (if any)
Y	PACRA is internally compliant with the practice of whistle blowing and reporting of erroneous behavior. The formal policy document is in the process of making and would be published on the website by Mar-2013

2. DCRA's Independence and Avoidance of Conflicts of Interest

A. General

2.1 A DCRA should not forbear or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on the DCRA, an issuer, an investor, or other market participant.

Compliant (Y/N)	Comments (if any)
Y	

2.2 A DCRA and its analysts should use care and professional judgment to maintain both the substance and appearance of independence and objectivity.

Compliant (Y/N)	Comments (if any)
Y	

2.3 The determination of a credit rating should be influenced only by factors relevant to the credit assessment.

Compliant (Y/N)	Comments (if any)
Y	

2.4 The credit rating a DCRA assigns to an issuer or security should not be affected by the existence of or potential for a business relationship between the DCRA (or its affiliates) and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship.

Compliant (Y/N)	Comments (if any)
Y	

2.5 A DCRA should separate, operationally and legally, its credit rating business and DCRA analysts from any other businesses of the DCRA, including consulting businesses, that may present a conflict of interest. A DCRA should ensure that ancillary business operations which do not necessarily present conflicts of interest with the DCRA's rating business have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise. A DCRA should also define what it considers, and does not consider, to be an ancillary business and why.

Compliant (Y/N)	Comments (if any)
Y	Definition of Ancillary Business and what PACRA considers or does not consider ancillary business is available internally. The formal policy document is in the process of making and would be published on the website by Jan-2013

B. DCRA Procedures and Policies

2.6 A DCRA should adopt written internal procedures and mechanisms to (1) identify, and (2) eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the opinions and analyses a DCRA makes or the judgment and analyses of the individuals a DCRA employs who have an influence on ratings decisions. A DCRA's code of conduct should also state that the DCRA will disclose such conflict avoidance and management measures.

Compliant (Y/N)	Comments (if any)
Y	A Conflict of Interest policy is available internally. The formal policy document is in the process of making and would be published on the website by Feb-2013

2.7 A DCRA's disclosures of actual and potential conflicts of interest should be complete, timely, clear, concise, specific and prominent.

Compliant (Y/N)	Comments (if any)
Y	

2.8 A DCRA should disclose the general nature of its compensation arrangements with rated entities.

a. Where a DCRA receives from a rated entity compensation unrelated to its ratings service, such as compensation for consulting services, a DCRA should disclose the proportion such non-rating fees constitute against the fees the DCRA receives from the entity for ratings services.

b. A DCRA should disclose if it receives 10 percent or more of its annual revenue from a single issuer, originator, arranger, client or subscriber (including any affiliates of that issuer, originator, arranger, client or subscriber).

c. DCRAs as an industry should encourage structured finance issuers and originators of structured finance products to publicly disclose all relevant information regarding these products so that investors and other DCRAs can conduct their own analyses independently of the DCRA contracted by the issuers and/or originators to provide a rating. DCRAs should disclose in their rating announcements whether the issuer of a structured finance product has informed it that it is publicly disclosing all relevant information about the product being rated or if the information remains non-public.

Compliant (Y/N)	Comments (if any)
Y	

2.9 A DCRA and its employees should not engage in any securities or derivatives trading presenting conflicts of interest with the DCRA's rating activities.

Compliant (Y/N)	Comments (if any)
Y	A Securities Trading Policy is available internally. The formal policy document is in the process of making and would be published on the website by Jun-2013

2.10 In instances where rated entities (e.g., governments) have, or are simultaneously pursuing, oversight functions related to the DCRA, the DCRA should use different employees to conduct its rating actions than those employees involved in its oversight issues.

Compliant (Y/N)	Comments (if any)
Y	

C. DCRA Analyst and Employee Independence

2.11 Reporting lines for DCRA employees and their compensation arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest.

a. A DCRA's code of conduct should also state that a DCRA analyst will not be compensated or evaluated on the basis of the amount of revenue that the DCRA derives from issuers that the analyst rates or with which the analyst regularly interacts.

b. A DCRA should conduct formal and periodic reviews of compensation policies and practices for DCRA analysts and other employees who participate in or who might otherwise have an effect on the rating process to ensure that these policies and practices do not compromise the objectivity of the DCRA's rating process.

Compliant (Y/N)	Comments (if any)
Y	

2.12 A DCRA should not have employees who are directly involved in the rating process initiate, or participate in, discussions regarding fees or payments with any entity they rate.

Compliant (Y/N)	Comments (if any)
Y	

2.13 No DCRA employee should participate in or otherwise influence the determination of the DCRA's rating of any particular entity or obligation if the employee:

a. Owns securities or derivatives of the rated entity, other than holdings in diversified collective investment schemes;

b. Owns securities or derivatives of any entity related to a 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;

c. Has had a recent employment or other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest;

d. Has an immediate relation (i.e., a spouse, partner, parent, child, or sibling) who currently works for the rated entity; or

e. Has, or had, any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.

Compliant (Y/N)	Comments (if any)
Y	A Securities Disclosure policy is available internally. The formal policy document is in the process of making and would be published on the website by Jun-2013

2.14 A DCRA's analysts and anyone involved in the rating process (or their spouse, partner or minor children) should not buy or sell or engage in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity within such analyst's area of primary analytical responsibility, other than holdings in diversified collective investment schemes.

Compliant (Y/N)	Comments (if any)
Y	

2.15 DCRA employees should be prohibited from soliciting money, gifts or favors from anyone with whom the DCRA does business and should be prohibited from accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.

Compliant (Y/N)	Comments (if any)
Y	A Conflict of Interest policy is available internally. The formal policy document is in the process of making and would be published on the website by Feb-2013

2.16 Any DCRA analyst who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest (including, for example, any personal relationship with an employee of a rated entity or agent of such entity within his or her area of analytic responsibility), should be required to disclose such relationship to the appropriate manager or officer of the DCRA, as determined by the DCRA's compliance policies.

Compliant (Y/N)	Comments (if any)
Y	

2.17 A DCRA should establish policies and procedures for reviewing the past work of analysts that leave the employment of the DCRA and join an issuer the DCRA analyst has been involved in rating, or a financial firm with which the DCRA analyst has had significant dealings as part of his or her duties at the DCRA.

Compliant (Y/N)	Comments (if any)
Y	The formal "Look back Review" policy document is in the process of making and would be published on the website by Feb-2013

DCRA Responsibilities to the Investing Public and Issuers

A. Transparency and Timeliness of Ratings Disclosure

3.1 A DCRA should distribute in a timely manner its ratings decisions regarding the entities and securities it rates.

Compliant (Y/N)	Comments (if any)
Y	

3.2 A DCRA should publicly disclose its policies for distributing ratings, reports and updates.

Compliant (Y/N)	Comments (if any)
Y	

3.3 A DCRA should indicate with each of its ratings when the rating was last updated. Each rating announcement should also indicate DCRA Responsibilities to the Investing Public and Issuers the principal methodology or methodology version that was used in determining the rating and where a description of that methodology can be found. Where the rating is based on more than one methodology, or where a review of only the principal methodology might cause investors to overlook other important aspects of the rating, the DCRA should explain this fact in the ratings announcement, and indicate where a discussion of how the different methodologies and other important aspects factored into the rating decision.

Compliant (Y/N)	Comments (if any)
Y	

3.4 Except for “private ratings” provided only to the issuer, the DCRA should disclose to the public, on a non-selective basis and free of charge, any rating regarding publicly issued securities, or public issuers themselves, as well as any subsequent decisions to discontinue such a rating, if the rating action is based in whole or in part on material non-public information.

Compliant (Y/N)	Comments (if any)
Y	

3.5 A DCRA should publish sufficient information about its procedures, methodologies and assumptions (including financial statement adjustments that deviate materially from those contained in the issuer’s published financial statements and a description of the rating committee process, if applicable) so that outside parties can understand how a rating was arrived at by the DCRA.

This information will include (but not be limited to) the meaning of each rating category and the definition of default or recovery, and the time horizon the DCRA used when making a rating decision.

a. Where a DCRA rates a structured finance product, it should provide investors and/or subscribers (depending on the DCRA's business model) with sufficient information about its loss and cash-flow analysis so that an investor allowed to invest in the product can understand the basis for the DCRA's rating. A DCRA should also disclose the degree to which it analyzes how sensitive a rating of a structured finance product is to changes in the DCRA's underlying rating assumptions.

b. A DCRA should differentiate ratings of structured finance products from traditional corporate bond ratings, preferably through a different rating symbology. A DCRA should also disclose how this differentiation functions. A DCRA should clearly define a given rating symbol and apply it in a consistent manner for all types of securities to which that symbol is assigned.

c. A DCRA should assist investors in developing a greater understanding of what a credit rating is, and the limits to which credit ratings can be put to use vis-à-vis a particular type of financial product that the DCRA rates. A DCRA should clearly indicate the attributes and limitations of each credit opinion, and the limits to which the DCRA verifies information provided to it by the issuer or originator of a rated security.

Compliant (Y/N)	Comments (if any)
Y	For sub clause (b), PACRA has decided to use the suffix "SO" for its structured finance ratings. the policy to this effect would be published on its website by Feb-2013

3.6 When issuing or revising a rating, the DCRA should explain in its press releases and reports the key elements underlying the rating opinion.

Compliant (Y/N)	Comments (if any)
Y	

3.7 Where feasible and appropriate, prior to issuing or revising a rating, the DCRA should inform the issuer of the critical information and principal considerations upon which a rating will be based and afford the issuer an opportunity to clarify any likely factual misperceptions or other matters that the DCRA would wish to be made aware of in order to produce an accurate rating. A DCRA will duly evaluate the response. Where in a particular circumstance the DCRA has not informed the issuer prior to issuing or revising a rating, the DCRA should inform the issuer as soon as practical thereafter and, generally, should explain the reason for the delay.

Compliant (Y/N)	Comments (if any)
Y	

3.8 In order to promote transparency and to enable the market to best judge the performance of the ratings, the DCRA, where possible, should publish sufficient information about the historical default rates of DCRA rating categories and whether the default rates of these categories have changed over time, so that interested parties can understand the historical performance of each category and if and how rating categories have changed, and be able to draw quality comparisons among ratings given by different CRAs. If the nature of the rating or other circumstances makes a historical default rate inappropriate, statistically invalid, or otherwise likely to mislead the users of the rating, the DCRA should explain this. This information should include verifiable, quantifiable historical information about the performance of its rating opinions, organized and structured, and, where possible, standardized in such a way to assist investors in drawing performance comparisons between different CRAs.

Compliant (Y/N)	Comments (if any)
Y	

3.9 For each rating, the DCRA should disclose whether the issuer participated in the rating process. Each rating not initiated at the request of the issuer should be identified as such. A DCRA should also disclose its policies and procedures regarding unsolicited ratings.

Compliant (Y/N)	Comments (if any)
Y	

3.10 Because users of credit ratings rely on an existing awareness of DCRA methodologies, practices, procedures and processes, the DCRA should fully and publicly disclose any material modification to its methodologies and significant practices, procedures, and processes. Where feasible and appropriate, disclosure of such material modifications should be made prior to their going into effect. A DCRA should carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.

Compliant (Y/N)	Comments (if any)
Y	

B. The Treatment of Confidential Information

3.11 A DCRA should adopt procedures and mechanisms to protect the confidential nature of information shared with them by issuers under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially. Unless otherwise permitted by the confidentiality agreement and consistent with applicable laws or regulations, the DCRA and its employees should not disclose confidential information in press

releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise.

Compliant (Y/N)	Comments (if any)
Y	

3.12 A DCRA should use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.

Compliant (Y/N)	Comments (if any)
Y	

3.13 DCRA employees should take all reasonable measures to protect all property and records belonging to or in possession of the DCRA from fraud, theft or misuse.

Compliant (Y/N)	Comments (if any)
Y	

3.14 DCRA employees should be prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.

Compliant (Y/N)	Comments (if any)
Y	

3.15 In preservation of confidential information, DCRA employees should familiarize themselves with the internal securities trading policies maintained by their employer, and periodically certify their compliance as required by such policies.

Compliant (Y/N)	Comments (if any)
Y	

3.16 DCRA employees should not selectively disclose any non-public information about rating opinions or possible future rating actions of the DCRA, except to the issuer or its designated agents.

Compliant (Y/N)	Comments (if any)
Y	

3.17 DCRA employees should not share confidential information entrusted to the DCRA with employees of any affiliated entities that are not CRAs/DCRAs. DCRA employees should not share confidential information within the DCRA except on an “as needed” basis.

Compliant (Y/N)	Comments (if any)
Y	

3.18 DCRA employees should not use or share confidential information for the purpose of trading securities, or for any other purpose except the conduct of the DCRA’s business.

Compliant (Y/N)	Comments (if any)
Y	

Disclosure of the Code of Conduct and Communication with Market Participants

4.1 A DCRA should disclose to the public its code of conduct and describe how the provisions of its code of conduct fully implement the provisions of the IOSCO Principles Regarding the Activities of Credit Rating Agencies and the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies. If a DCRA's code of conduct deviates from the IOSCO provisions, the DCRA should explain where and why these deviations exist, and how any deviations nonetheless achieve the objectives contained in the IOSCO provisions. A DCRA should also describe generally how it intends to enforce its code of conduct and should disclose on a timely basis any changes to its code of conduct or how it is implemented and enforced.

Compliant (Y/N)	Comments (if any)
Y	PACRA is in the process of aligning its code of conduct to IOSCO Code of Conduct. The formal policy document to this effect will be published on the website in Mar-13

4.2 A DCRA should establish a function within its organization charged with communicating with market participants and the public about any questions, concerns or complaints that the DCRA may receive. The objective of this function should be to help ensure that the DCRA's officers and management are informed of those issues that the DCRA's officers and management would want to be made aware of when setting the organization's policies.

Compliant (Y/N)	Comments (if any)
Y	

4.3 A DCRA should publish in a prominent position on its home webpage links to

- i. the DCRA's code of conduct;
- ii. a description of the methodologies it uses; and
- iii. information about the DCRA's historic performance data.

Compliant (Y/N)	Comments (if any)
Y	