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1. OBJECTIVE

1.1 To develop a mechanism that cover all the reviews including annual review, semi-annual review/Surveillance, review upon occurrence of any event where PACRA deems appropriate that the rating be reviewed and review on the basis of request by an investor, creditor or the Issuer.

1.2 To oversee that all ratings are reviewed as per the policy.

2. APPLICABILITY

2.1 This policy is applicable on rating analysts.

3. TYPES OF REVIEW

3.1 Ratings may be subject to any of the following types of reviews:

- i. Initial Rating
- ii. Preliminary Rating
- iii. Semi-annual Review/Surveillance
- iv. Annual Review
- v. Interim Review

3.1.1 **Initial Rating:** The rating assigned by PACRA for the first time.

▪ *Ratings are also termed “Initial” when a previously:*

- i Private Rating converts into a Public Rating
- ii Preliminary Rating is finalized
- iii Withdrawn rating comes back to PACRA with a fresh Agreement
- iv Defaulted rating emerges from default and assigned a rating
- v A rating restored from suspension may also be termed as initial.

3.1.2 **Preliminary Rating:** The rating assigned to a debt instrument yet to be issued based upon its proposed terms and conditions.

3.1.3 **Semi-Annual Review/ Surveillance:** PACRA shall surveil / review all the outstanding ratings on semi-annual basis or upon occurrence of such an event which requires to do so; Provided that public dissemination of Semi-annual review/ Surveillance will be required only in case of any change in underlying rating action.

3.1.4 **Annual Review:** PACRA is bound by a regulatory requirement to review all the outstanding ratings periodically on annual basis. Public dissemination of rating action of annual review is mandatory via press release along with rating report in case of Public Ratings.

3.1.5 **Interim Review:** An interim review of ratings may be conducted at any point in time, as per requirement and circumstances. Also, a rating may undergo as many interim reviews as there are circumstances warranting such reviews. Need for an interim review is triggered whenever:

- i. Any change is expected in rating due to any event associated with the issuer, the security arrangement, the industry etc.
- ii. Required by any investor, creditor, issuer or upon the occurrence of such an event which requires to do so;
- iii. Becoming aware of any information that may reasonably be expected to result in upgrading / downgrading of the Rating;
- iv. There is any revision in methodologies, models or key rating assumptions.

4. REVIEW PROCESS

4.1 PACRA's rating process generally includes following steps:

- i Acquisition of all public and non-public information relevant to the rating assessment, at entity and sector level. This may acquire through a questionnaire addressed to the client and from other sources considered relevant.
- ii Preparing risk evaluation documents using the information gathered as above.
- iii Conducting a site visit of the client's offices/facilities to gain an in-depth understanding of business and operations.
- iv Meeting the client's management to incorporate important non-public information, particularly pertaining to strategy, vision, future plans, into the rating assessment, to ensure forward-looking rating opinions.
- v Presenting the initial analysis reports along with the initial indicative ratings to the Rating Committee, which is the sole authority for finalizing the rating decision.
- vi Offering the client an opportunity to review the key documents via a Pre-Publication Letter which contain the rating action.
- vii Formally notifying the final rating to the client and, in case of a public rating, releasing the rating in the public domain via a press release.

4.2 There may be certain variations depending on the type of review. Relevant details are as follows:

4.2.1 Preliminary Rating:

- i Rating team, if considered necessary, may communicate with transaction agent/trustee and legal counsel.
- ii Site visit may not be required in case of preliminary rating.
- iii If the entity that is issuing the instrument is already a PACRA rating client then, limited additional information may be solicited.
- iv If the entity that is issuing the instrument, is not a PACRA client, then rating team would largely follow the process as mentioned in 4.1 above.

4.2.2 Semi-Annual Review/Surveillance:

- i Site visit may not be conducted as it is required to be conducted once every two years.
- ii Questionnaire may focus on additional information only.
- iii A formal meeting with client's management may be skipped as it is required to be conducted once every year.
- iv Dissemination of Semi-annual review / Surveillance will be required only if there is a change in underlying rating in case of public ratings.

4.2.3 Annual Review:

- i Site visit of the client's facilities in case of manufacturing concern shall be mandatory once *every two years*. For other clients site visit may be conducted on a need basis.
- ii Dissemination of Annual-Review in case of public ratings is mandatory.

4.2.4 Interim Review:

- i Information from the client to support an interim review of ratings is sought. When required, meetings with the relevant management personnel may be sought.
- ii In most cases, the only document sent to the client is a rating notification. A press release may accompany if public dissemination of review is considered necessary. Subject to the extent of the change in the underlying rating factors, a rating report may also be issued.

5. RATING REVIEW REQUEST

5.1 PACRA offers the opportunity to all stakeholders to lodge with it a rating review request.

5.2 A rating review request is considered legitimate whenever such request arises out of a belief that:

- i. PACRA has *inadvertently missed* or *materially misinterpreted* critical information in reaching a rating decision
- ii. There exists *new* information, new background to existing information or material developments not reflected in the outstanding rating.

5.3 Rating team should assess the acceptability of rating review request. If circumstances such as the above come to prevail, it requires that an evaluation of the materiality of the missed / misinterpreted / additional information is made and the outcome of this exercise, if any, factored into the Rating opinion.

5.4 The Ratings Review Request process proceeds as follows:

- i. **Formal Request:** Ratings Review Request may be in a written form or communicated verbally with points of contention with PACRA's opinion explained.
- ii. **To whom addressed:** A rating review request along with necessary justification of request shall be lodged with respective rating team.
- iii. **Information Solicitation:** The Rating Team solicits information from the Ratee, if needed. Complete information must be made available to PACRA in order to facilitate timely resolution. PACRA is committed to concluding a Rating Review Request within fifteen (15) working days of the availability of all requisite information.
- iv. **Rating Review Request Resolution:** A Rating Review Request may be resolved without convening another RC. This happens to be the case when a clarification of Rating Factors underlying the opinion is all that is sought or suffice. However, whenever this is not the case, an RC is convened and the Rating Review Request decision is finalized.

- v. **Rating Notification & Public Dissemination:** The outcome of a Rating Review Request decision may take the *shape* of either *maintaining* or *revising* the original Rating opinion:
- In case of both *maintaining* and *revising* the original Rating opinion, the Ratee is apprised of PACRA's decision to the Rating Review Request.
 - A new rating notification is made to the Ratee, *only* in cases where PACRA decides to *revise* its original opinion. In case of any editorial changes made to the Rating Report, the revised version of such also accompanies the rating notification letter.
 - Simultaneously, PACRA publicly disseminates (*in case of public ratings*) its revised opinion.

5.5 Ratees (Issuers) making Rating Review Request:

- Caution against misuse:** A rating review request should be a sincere attempt to have *missed information* being incorporated, *misinterpreted information* being interpreted correctly and *new information* being reflected in the rating opinion. Further, a rating review request should **not** be used as a tactic *delaying* the release of an undesirable rating opinion or an adverse rating change.
- Initial Ratings:** For an initial rating, public dissemination *remains* the Ratee's prerogative. Nevertheless, the Ratee reserves the *right to request* review of rating.

6. MONITORING MECHANICS

6.1 Monitor all the outstanding ratings continuously.

6.2 Monitoring is the responsibility of the Rating Analyst. In case, anything unusual is observed, further investigation and analysis is done to ascertain whether it merits an Interim Review of the Rating or not. In addition to formal reviews, monitoring is done through:

- Analyzing the numbers:** Client financial information is updated and analyzed on a period-over-period basis using the most recently released financial reports. Depending upon the criticality of any development seen therein, the client may be asked to share further information.
- Research & Publishing Function:** PACRA has an independent department – Research & Publishing (R&P), dedicated to the research and analysis of Industries/Sectors covered by PACRA. The basic objective of R&P is to develop informed views on the Industries/Sectors of PACRA rated clients. The R&P facilitates PACRA's rating teams and Rating Committee (RC) by providing research on sectors. Further, R&P delivers a daily morning briefing session covering news about economy, industries and sectors.
- Rating Analysts Calls:** These calls made by the rating analysts to the clients, issuers, debt trustees and investment agents serve to keep PACRA updated on all information pertaining to the rating of the entity/instrument. The material for these calls is consolidated from: (i) analysis of the financial information, (ii) public information, (iii) instrument redemption schedules; and (iv) other rating related issues that are in PACRA's knowledge.

7. POLICY ADMINISTRATION

6.3 Due Care: PACRA shall ensure that it does not issue rating for entities or obligations for which it does not have appropriate information, knowledge and expertise.

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

7.2 Review: This Policy is subject to review as follows:

Reviewed by	Scope	Frequency (Minimum)	Regulation
Compliance Officer	Appropriateness & sufficiency	Annual	Chapter III 11-B-(k)
Firm of Chartered Accountants	Actual vs. Policy	Semi-Annual	Chapter III 11-F-(g)

7.3 Policy Approval: This policy is required to be approved by the board of directors.

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 all codes of conduct and PACRA policies, including this policy, is a condition for employment. Compliance with the codes and PACRA policies shall be monitored on periodic basis:

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

Capitalized terms used herein are defined in PACRA Glossary. Moreover, current version of this policy is available on the website:

www.pacra.com

8. REGULATORY FRAMEWORK

8.1 PACRA’s compliance to SECP’s regulatory requirements in terms of the Policy for Review of Ratings is as follows:

PACRA’s Compliance for Policy for Review of Ratings	
CRC Regulations, 2016	Policy Reference
Regulation III 10(7)(e): A credit rating Company shall not issue rating for entities or obligations for which it does not have appropriate information, knowledge and expertise.	Clause 6.3
Regulation III 11(A)(j): A credit rating Company shall engage with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument	Clause 6.2.3
Regulation III 17: Monitoring and review of the Rating: A credit rating company shall:	
(a) monitor all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market.	Section 6.1



immediately and in effective manner, after appropriate consultation with the entity/issuer;	
(b) review all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be required;	Clause 3.1.4
(c) initiate immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating;	Clause 3.1.5
(a) engage with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; and	Clause 6.2.3
Annexure H: (List of Policies to be developed & disclosed by a credit Rating company / agency: Policy for Review of Ratings	Policy developed & disclosed on website