

The Pakistan Credit Rating Agency Limited



Together. Creating Value

Broker Management Rating Criteria Assessment Framework

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Summary

PACRA's Broker Management Rating aims to facilitate investors to differentiate between brokers on the basis of quality of management and services provided. Brokerage industry is characterized as very dynamic and volatile due to its direct dependency on the performance of capital markets. PACRA's analysis is based on a mix of qualitative and quantitative factors, namely: Ownership, Governance, Management, Business Sustainability and Financial Sustainability. The relative importance of each of these criteria is varied depending on its potential to impact the overall profile of the brokerage firm.

This methodology is applicable to brokers licensed to undertake securities broker activity under Securities Act, 2015, and permitted to undertake future's broker activity for futures contracts based on securities and financial instruments as per section 52 of the Futures Market Act, 2016.

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1. Introduction

Scope: Opinion on the quality of management and services provided by a broker

Scope: Securities Brokers (henceforth referred to as ‘brokers’ or ‘brokerage firms’) play a critical role in capital markets by facilitating trades for all categories of investors. The brokerage industry is characterized as very dynamic and volatile due to its direct dependency on the performance of capital markets. PACRA’s Broker Management Rating aims to facilitate investors to differentiate between brokers on the basis of quality of management, services provided, regulatory compliance, operational, and technological infrastructure deployed by the broker.

1.1 Overview: An entity licensed under Securities Brokers (Licensing and Operations) Regulations, 2016, is permitted to provide brokering services (equity, fixed income, and commodity), provide and arrange leverage products (Margin Trading System, Margin Financing, short selling, and Lending and Borrowing of securities) and can also engage in advisory and underwriting. For underwriting, the broker needs to be registered with SECP as an underwriter in compliance with Underwriter Rules, 2015. Meanwhile, Brokers who are not engaged in proprietary trading may apply for license to undertake Investment Advisory Services only for managing discretionary or non-discretionary portfolios for both individual and institutional clients under NBFC Regulations, 2008.

1.2 Regulatory Landscape: Brokers are regulated primarily by the Securities and Exchange Commission of Pakistan (SECP). The regulator has designed a comprehensive set of laws and regulations for brokers. Following are the key regulations applicable to the brokers:

<i>Regulations/Guidelines</i>	<i>Promulgated / Last Updated</i>
<i>Securities Brokers (Licensing and Operations) Regulations, 2016</i>	<i>Updated November 14, 2023</i>
<i>National Clearing Company of Pakistan Limited (NCCPL) Regulations</i>	<i>Updated September 26, 2023</i>
<i>Central Depository Company of Pakistan Limited Regulations</i>	<i>September, 2023</i>
<i>Securities and Future Advisors Regulations, 2017</i>	<i>Updated June 15, 2023</i>
<i>The Non-Banking Finance Companies Establishment and Regulation Rules, 2003</i>	<i>Updated September 27, 2022</i>
<i>PSX Rule Book</i>	<i>Updated February 07, 2022</i>
<i>Public Offering Regulations, 2017</i>	<i>Updated September 15, 2021</i>
<i>Public Offering (Regulated Securities Activities Licensing) Regulations, 2017</i>	<i>Updated October 27, 2021</i>
<i>Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018</i>	<i>August 31, 2018</i>
<i>Securities and Exchange Commission of Pakistan Act, 1997</i>	<i>Updated August 08, 2016</i>
<i>Futures Market Act, 2016</i>	<i>April 09, 2016</i>
<i>Joint Inspection Regulations, 2015</i>	<i>October 15, 2015</i>
<i>Research Analyst Regulations, 2015</i>	<i>July 27, 2015</i>
<i>Securities Act, 2015</i>	<i>April 07, 2015</i>
<i>Underwriters Rules, 2015</i>	<i>February 04, 2015</i>
<i>Securities (Leveraged Markets and Pledging) Rules, 2011</i>	<i>February 22, 2011</i>
<i>Commodity Exchange and Futures Contract Rules, 2005</i>	<i>March 15, 2005</i>
<i>Central Depositories Act, 1997</i>	<i>April 07, 1997</i>
<i>Securities and Exchange Ordinance, 1969</i>	<i>June 28, 1969</i>
<i>Central Depositories (Licensing and Operations) Regulations, 2016</i>	<i>Updated August 10, 2023</i>

1.3 Rating Scale: BMR has six rating categories from “BMR1A” to “BMR5” with BMR1A being the highest. In addition, the scale will be appended with “+” and “++” signs to denote relative status within a category except for “BMR1A” and “BMR5”.

2. Rating Framework

Rating Framework:

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

2.1 This rating methodology delineates factors incorporated in PACRA’s rating opinion to enable investors, market participants, and lenders to understand the rating considerations. The envisaged broker rating is based on both qualitative and quantitative factors to reflect the relative management quality, services provided, and sustainability of operations. PACRA uses these key parameters to assess the quality of operations of a broker and the services offered by it. Each parameter is assessed individually. These are then aggregated to arrive at the final rating. Each factor has sub factors and assigned a weightage to come up with an opinion. These factors include: i) Profile; ii) Ownership; iii) Governance; iv) Management and Client Services; v) Internal Controls and Regulatory Compliance; vi) Business Sustainability; and vii) Financial Sustainability.

Profile	Ownership	Governance	Management	Business Sustainability	Financial Sustainability
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3. Ownership

Ownership Structure:

Identification of man at the last mile.

3.1 Ownership Structure: The assessment of ownership begins by looking at the legal status of the broker. Level of perceived stability gradually increases from a sole proprietor to a listed broker. This is followed by an in-depth study of the shareholding mix 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 broker directly or indirectly; ii) foreign or local shareholders; iii) whether the broker is owned by a single group or through a combination of brokers and individuals, and iv) whether it is part of a group or a standalone broker. All these deliberations are done to identify the man of the last mile. PACRA further considers how a brokerage company is actually run, as, at times, brokers are run as family concerns despite being legally

Complex shareholding/ownership structures: *In cases where an entity has a complex ownership structure, there are unique challenges in evaluating the decision-making process, lines of hierarchy and financial obligations and liabilities. In analyzing these, the fundamental issue is to explore the underlying reason or motivation for the complexity of the structure.*

Entities which are owned by private individuals and families: *On the one hand, the concentration of shareholding 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 returns from the entity as source of income or to fund other business activities, potentially undermining the financial stability of the entity.*

structured as companies. PACRA considers broker's experience in the industry and views those brokers favorably that have gained several years' track record, navigating through market cycles, developing sound processes and have well nurtured expertise to offer brokerage services. PACRA also draws comfort from the institutional and/or foreign ownership as the propensity of support (brand name, capital etc.) from key owner/s, as and when required, and their expertise are considered important credit drivers.

Stability:

Succession planning at shareholder level

3.2 Stability: In order to analyze the stability of ownership, a critical factor to be taken into account is succession planning. A very important part of our background analytical work is an attempt to assess whether, and under right of succession, the broker'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 broker. 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.

Business Acumen:

Knowledge, skills and experience of key shareholders

3.3 Business Acumen: PACRA gauges the shareholders' 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. Brokers backed by strong domestic and/or foreign institutions as strategic investors are expected to have strong institutional acumen and provide higher comfort. The scope of analyzing business acumen includes the assessment and understanding of how the shareholders of the broker deliberate over and successfully make the right business decisions.

Financial Strength:

Willingness and ability of key shareholders to provide extraordinary financial support

3.4 Financial Strength: PACRA analyzes the ability and willingness of the major shareholders to support the broker both on a continuing basis, and support in times of crisis. Here, 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 shareholders; and iv) the level of commitment of the major shareholder with the broker 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. Here, the scope for looking at other business of shareholders includes overall profiling of the key shareholders in the context of identifying the resources they have, outside the broker. The standalone rating of the institution can benefit from having majority shareholders with very strong financial strength and commitment to the business. If, in a group structure, the financial strength of the shareholder is deemed to be weaker than that of the broker, this may bode negatively for the broker's standalone rating given the possibility that the broker may at some point of time be bound to extend financial support to its weaker parent.

Information Required on Ownership:

- Shareholding pattern
- Succession planning details
- Details of shareholders' other businesses
- Shareholders' financial info
- Past pattern of shareholders support

4. Governance

Board Structure:
Composition of board in terms of size, independence and committees

4.1 Board Structure: This comprises assessment of board in terms of overall size, presence of independent members, duration of board members' association with the broker, overall skill mix and structure of board committees. Size of the board may vary as per the scope and complexity of the operations of the broker. While a very small board is not considered good, similarly, reaching a decision in an effective and efficient manner may not be possible in case of a large board. A healthy composition of board includes the presence of independent and non-executive members having limited relationship with the sponsoring group of the broker. Meanwhile, same individual holding chairperson and CEO positions is considered weak governance practice. The chairperson is expected to have a non-executive role. Compliance with the code of corporate governance is also examined. PACRA also considers the independence of governance from major shareholders. Lastly, PACRA evaluates number of board committees, their structure, and how these committees provide support to the board. A board with higher number of members should have higher number of committees in place to assist in performing its role. A well-structured board should be supported by at least three committees, including Audit committee, Human Resource & Remuneration Committee and Risk Management Committee as defined in the code of Corporate Governance and in line with best practices.

Members Profile:
Relevance and diversity of board members' skills and experience

4.2 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. Moreover, diversification in terms of knowledge background and experience is considered positive. However, a fair number of board members should have related experience.

Board Effectiveness:
Extent to which board properly discharges its responsibilities

4.3 Board Effectiveness: In PACRA's view, the role of the board is to work with management in steering the broker to its performance objectives and to provide critical and impartial oversight of management performance. PACRA analyzes the type and extent of information shared with board members, and quality of discussions taking place at board and committee levels. Effective oversight requires frequent sharing of detailed information covering various aspects of business and market development. Meanwhile, PACRA also reviews the number of board meetings held during the year as these should be justified with the number of issues/matters arising. Board members' attendance and participation in meetings is important, and is gauged by viewing board meeting minutes.

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

4.4 Transparency: Quality of governance framework is also assessed by the procedures designed by the board to ensure transparent disclosures of financial and other information. 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.

Accounting Quality: PACRA reviews the quality of a broker'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.

Quality of Disclosures: A well-established information system is required for adequate disclosures. The characteristics of quality information includes timeliness, disclosures beyond the minimum regulatory requirements to improve transparency and consistency of such disclosures.

Information Required on Governance:

- Profile of Board members
- Details of Board Committees (incl. TORs) and minutes of latest 4 meetings
- Details of internal/external audit functions
- Board meeting minutes
- Information packs used by board (MIS)

5. Management

Organizational Structure:

Alignment of organogram with size and business requirements

Management Team:

Relevance and diversity of skills, knowledge and experience of top management

Client Servicing:

Quality of client reporting, trading facilities, and value-added services, if any

Complaint Management:

Complaint platforms, management guidelines and resolution

5.1 Organizational Structure: PACRA's analysis of the organizational structure focuses on how the broker is organized keeping in view the scope of operations, confidentiality and conflict of interest within departments and with the clients.

5.2 Management Team: Good quality management implies that the broker has effective systems and controls, and a well-defined strategy to achieve desired level of excellence. However, a radical departure in strategy, a shake-up in management, or an untested team can each herald sudden changes that increases the uncertainty surrounding a broker. PACRA assesses the management quality in terms of the experience profile of key individuals and their tenure with the broker, dependence of the management team on one or more persons, coherence of the team and management's past track record. PACRA also analyses the broker's ability to attract and retain talent, and frequency and quality of the training imparted to the employees. Membership of local and foreign associations also provides comfort and contributes towards the enhancement of management quality.

5.3 Loss of key personnel, particularly members of senior management can have potentially adverse effects on performance of overall standing of the broker relative to peers. Hence, HR turnover is reviewed to determine the stability of critical staff, with particular focus on key departments. In addition, broker's human resource policies are also reviewed to gauge broker's emphasis on retaining and recruiting vital staff and ensuring their redundancy in the structure.

Key-person Risk: Key-person risk occurs when a broker 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 brokers, it can also exist in larger brokers and is relatively challenging to benchmark, and hence, mitigate. PACRA attempts to identify the extent to which a broker is dependent on the expertise of such individual(s) and to ensure policies exist for managerial succession to limit the adverse impact of such a person unexpectedly leaving the broker.

5.4 Client Servicing: The standard practices followed by the broker in servicing clients are evaluated. This helps assess the adequacy of these practices and the quality of services provided to the clients. Nature of value-added services provided (such as research/news updates and investor education programs), dissemination of trading policies and procedures to clients, order recording and trade confirmation process, periodic reporting to clients and segregation of client money and assets from broker as well.

5.5 Complaint Management: Nature and number of complaints received is an important indicator to measure the quality of services provided and resultant client satisfaction. PACRA also analyses the complaint management system in place, use of technology for complaint registration and resolution, and number of complaints received and pending against the broker. Response time, timeline of

resolution of complaints and integration of complaints management system with internal control system is critical to PACRA's assessment.

Extent of Automation:

Robustness of IT, MIS and level of integration

5.6 Extent of Automation / Integration: For the broker to be able to service clients effectively and 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.

Continuity of Operations:

Data recovery and disaster management planning

5.7 Continuity of Operations: PACRA also analyses the adequacy of infrastructure in place. Connectivity with the exchange, communication network, frequency of connection failure and time taken to restore the connection, database maintained, back up procedures, disaster recovery and business continuity plan, and documentation and monitoring of channels of communication etc. are looked at. While broker's existing IT systems may be adequate for current scale of business, PACRA also evaluates the broker's focus on continuous improvement and ability to scale up its IT systems in line with the business growth. Rapid growth may introduce other challenges, such as operational strains and back-office staff or system strain. This is carefully analyzed to form an opinion.

5.8 Risk Management Framework: PACRA assesses the robustness and reliability of the risk management systems in place. Evaluating the overall risk management framework enables to determine how various risks are identified, monitored and mitigated across the brokerage firm. The efficiency of controls and effectiveness of the internal audit function within a brokerage firm is instrumental in mitigating risks arising from operational failures. The scope of assessment includes overall risk control framework, integration with the front-office, risk monitoring and measurement, compliance and extent to which the broker's incentive structure discourages excess risk-taking and promotes alignment of interests with clients' objectives. From the rating perspective, it is of prime importance for a brokerage firm to maintain a separate risk management team, independent of the business acquisition. Meanwhile, standardized, system driven, policy-based risk management procedures are considered precursor of strong risk management function. Documented policies including conflicts of interest, proprietary trading and adequate segregation between functions are reviewed to form an opinion. Management's policy as to proprietary trading plays a vital role in the overall assessment of the broker's risk appetite and its ability to manage conflict of interest.

5.9 Operational Risk and Control Environment: Operational risk is the risk of loss resulting from inadequate or failed internal processes, unauthorized trading, misappropriation of the clients' money, breach of clients' confidentiality, fraud in trading or in back-office functions and easily accessed computer systems. An analysis of the broker's risk and control policies and procedures and frequency of updating these will help in determining the viability of the operational control environment against unanticipated errors and failures.

5.10 Regulatory Compliance: Regulatory compliance is crucial in the brokerage industry due to the stringent implementation of rules by the regulators and the possibility of suspension of operations, if rules are breached. PACRA assesses the internal control measures adopted to ensure adequate legal and regulatory compliance. An objective assessment of the attitude of management towards legal compliance and the systems set in place to ensure compliance provide assurance that the broker's service continuity will not be affected by the regulator's penal action. Compliance levels are examined in detail, especially with regards to the internal audit, system audit and CDC audit. Correspondence

with the SECP, PSX, CDC and NCCPL is evaluated along with any regulatory matters outstanding or actions taken by the regulators. Any litigation pending against the broker is also considered.

Information Required on Management:

- Organogram
- Profile of key management
- Details of management committees
- Sample MIS reports
- List of approved policies incl. training & HR policies
- Details of succession planning for key managerial positions
- Details of alliance with local/foreign brokerage houses
- Sample reports generated from complaint management system

6. Business Sustainability

Business Risk:

Operational efficiency, control over costs, concentration in revenue base

Business Profile:

Branch network, licenses, market position

Revenue and Profitability:

Revenue diversification and sustainability

6.1 Business Risk: Business risk is the possibility that a broker will have lower than anticipated profits or experience a loss. It impairs a broker's ability to provide its clients and stakeholders with adequate returns. The strength of the broker's business model is assessed to ascertain the sustainability of its operations.

6.2 Business Profile: PACRA assesses the broker's branch network, number of licenses the broker holds for carrying out different activities, category under which the broker has obtained license (Trading Only, which include Online Only; Trading and Self Clearing; or, Trading and Clearing brokers), number of clients' CDS account (investor accounts and sub-accounts) and market share.

6.3 Revenue and Profitability Analysis: PACRA also analyses the revenue quality. PACRA analyzes concentration at both product and client levels. Broking businesses derive strength from diversity of revenue streams. Brokers that are not dependent on a few major players, and therefore, have low concentration risk, are better placed in terms of business sustainability. The structure of brokerage fee is evaluated: the mix of value versus scrip revenue, the composition of institutional, HNWs and individuals in revenue, the interplay of foreign vs. local clients, the longevity of the relationship, the trend analysis, the average brokerage fee and its relativeness in the industry, and operational profitability. The alternative revenue streams from underwriting and advisory are analyzed to form a view on how significant these are and whether these represent a sustainable revenue stream. Meanwhile, brokers that are highly reliant on proprietary trading profits are considered riskier. The overall profitability and its sustainability is important as it determines the broker's ability to sustain its operations and act as a first line of defense against other sources of risk or loss.

Information Required on Business Sustainability:

- Branch network
- Licenses held
- Sales details from shares handled on commodity & stock exchange
- Composition of revenue (brokerage, underwriting, advisory, etc.)
- Top 10 accounts classified under doubtful receivables
- Client wise (i.e., individuals, corporate, foreign) transaction rate charged

7. Financial Sustainability

Credit Risk:

Inability of clients to settle trades

7.1 Credit Risk: Credit risk emanates from the inability of clients to pay for the securities purchased on their behalf. PACRA analyses the mechanism put in place by the broker to minimize credit risk. This includes procedures related to client acceptance and assessment of credit worthiness of clients, know your client due diligence policy, assignment and adherence to trading limits, margin policies including mechanism of margin calls, reports generated and frequency thereof to monitor clients' exposures, liquidation of client accounts where necessary and number of days receivables are outstanding.

Market Risk:

Controls in place to manage adverse movement in security prices

7.2 Market Risk: Market risk arises primarily from adverse movements in investment values. In certain investments, the interplay of credit risk and market risk aggravates the overall quantum of risk exposure. Brokers that do not hold securities on their balance sheets generally have only limited exposure to market risk. Where brokers maintain a proprietary book, it is important to assess the measures used to mitigate market risks. PACRA examines the general strategy with regards to proprietary trading, stability and profitability of sectors and companies invested in, cutoffs for exit from stock market and measurement of risk (Value at Risk – VAR, stress scenarios etc.). PACRA evaluates market risk with particular emphasis on trading book, mainly equities, of the broker. Higher exposure in government securities adds stability due to lower credit risk but at the same time exposes the broker to higher interest rate risk. Here duration is a key parameter. While potential loss lying on the balance sheet that is yet to materialize stands as a risk of drag on performance of the broker, any available unrealized gain on investments held for sale is considered as a cushion to unforeseen losses that may arise due to price movements.

Liquidity Risk:

Ability to service short-term obligations

7.3 Liquidity Risk: Liquidity risk occurs due to insufficient funds to meet obligations when they fall due. PACRA analyses liquidity profile of the broker. Here, compliance with regulatory liquidity and reserve requirements is considered as minimum baseline. Furthermore, PACRA analyses short-term vs long-term mix; the maturity profile of liabilities is seen in conjunction with related asset base to analyze liquidity profile. PACRA believes higher asset turnover as compared to liabilities is good for liquidity management. The broker's compliance to regulatory reserve requirements is a minimum. PACRA also contrasts Adjusted Liquid Capital Balance to Liquid Capital Balance to determine liquidity position of the broker. Furthermore, in case of proprietary investment book, PACRA also reviews broker's approach towards funding its proprietary book. Liquidity risk analysis also includes the broker's ability to raise timely and cost-effective funds from external sources including unutilized banking lines. Funding and liquidity are relevant because inadequacies in these two areas often lead to broker failures as a result of asset/liability mismatches or asset illiquidity.

Capitalization:

Equity cushion to absorb losses and remain compliant with regulatory requirements

7.4 Capitalization: Given defined regulatory requirements, the broker's ability to maintain the related capital requirements and sustaining this level is critical. PACRA evaluates broker's capitalization as a cushion to absorb unreserved losses. These include impact of foreseeable future business losses, if any, and expected level of provisioning on bad debts and nonperforming investments. Strong capital levels provide necessary cushion in terms of absorbing any delay in collections from clients and losses during unfavorable market conditions. A small (in absolute terms) capital base can leave an institution more vulnerable to unforeseen events, especially where there are risk concentrations. This may result in a downward adjustment of a broker's capitalization and leverage score. A large (in absolute terms) capital base along with strong capitalization ratios could

be positive for the assessment. Leverage and capital adequacy measures are relevant because they determine a broker's ability to handle higher trading volumes (depending on category of license) and absorb unexpected losses. Meanwhile, Net Capital Balance (NCB) reflects the overall capitalization of the entity and would normally coincide with its size and trading activities. PACRA also evaluates capital formation rate of a broker from internal sources. Meanwhile, dividend payout policy is considered important as it may have a significant bearing on potential capital formation rate.

Information Required on Financial Sustainability:

- Client acceptance policy, including assigned credit limits
- Details of exposure limits and measures taken to ensure their implementation
- Bank guarantees submitted with the exchanges
- Statement of net capital and liquid capital
- Financial projections for next 3 years

Broker Management Rating	
An independent opinion on the quality of management and services provided by a broker	
Scale	Definition
BMR 1A	Excellent. Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.
BMR 1++ BMR 1+ BMR 1	Strong. Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.
BMR 2++ BMR 2+ BMR 2	Sound. Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.
BMR 3++ BMR 3+ BMR 3	Adequate. Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.
BMR 4++ BMR 4+ BMR 4	Inadequate. Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.
BMR 5	Weak. Weak regulatory compliance and business practices.

<p>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'.</p>	<p>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.</p>	<p>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.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the rating remains suspended for six months, or/and d) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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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.

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