

A Presentation on  
**Credit Rating & The  
Evolving Regional  
Regulatory Environment**

by  
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# Role of ACRAA

To serve as a representative body that wields influence over its members

- ACRAA, with sound understanding of long-term gains of self discipline and nature of conflicts inherent in this business, is ideally positioned to be an influential body.
- Self interest of raters balanced by competitive forces in most jurisdictions.
- Membership of AACRA should translate into special status in local markets and with regulators, to prevent ill-meaning interference by strong market players or non-expert interference by regulators.



# Timing

- **URGENT!**
- With the debacle of structured finance products, and the resulting spate of regulatory amendments being proposed, its wiser to begin a soft reform process which will be an extension of 'self discipline'.



# New Important Developments in the US Regulations

- **Objectives: Strengthen the Integrity of Rating Process, Address Potential Conflicts of Interest and Ensure Proper Disclosure to Investors:**
  - Disclosure of Rating History across all Rating Classes on a periodic basis (10% per class) on a Six Monthly Basis and all Outstanding Ratings on an Annual Basis;
  - Monitor Percentage of Fee from One Client or a Group in Total Revenue;
  - The Arranger to provide an Undertaking to its NRSRO that the Same Information will be Provided to Other NRSROs; Hired NRSRO will Inform Other Agencies of the Deals that they are working on (*this has implications for the heretofore controversial 'Unsolicited Ratings'*)



# New Important Developments in the US Regulations

- **Objectives: Strengthen the Integrity of Rating Process, Address Potential Conflicts of Interest and Ensure Proper Disclosure to Investors:**
  - Deliberations regarding Setting Up an Investor Owned & Controlled Rating agency (IOCRA) – that will protect the interests of larger institutional investors;
  - There are Conflicts with both Issuer Pay and Subscriber Pay models. Subscriber Pay Models may try to Supplement Individual Trading Positions;
  - Removal of Exemption from Liability for NRSROs and its Implications on the Cost of Conducting Ratings through rescinding rule 436(g).



# What ACRAA Can Do?

WYSWYD – What You Say, What You Do

## Proposed Steps taken by ACRAA without being Overly Intrusive:

- Set up an Oversight Committee or Board that Coordinates with Compliance Officers in each Rating Agency to monitor
  - Disclosures regarding Rating Performance in terms of History, Defaults, Transitions;
  - Confirm Quality of Documentation in terms of Rating Committee Deliberations, Comprehensiveness of Methodologies, and the Rating Process for each Rating Exercise
- Require Rating Agencies to Declare Maximum Exposure per Client/Group in terms of Fee to Revenue;



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WYSWYD – What You Say, What You Do

**Proposed Steps taken by ACRAA without being Overly Intrusive:**

- Investigate Market Complaints regarding Conflict of Interest – This will be the only element of Supervision that requires accessing Third Parties, Regulators, Investors, etc;
- The Potential for Effectiveness of Audit Processes through Review of Audit Reports and Audit Findings – This can be brought about in phases.



**THANK YOU**

