

Regulatory Procedure

(REGISTRATION / LICENSING AND OTHER REQUIREMENTS FOR CREDIT RATING COMPANIES)



**PREPARED BY:
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1 Disclaimer

This information memorandum is to introduce the subject matter and provide a general idea and information on the said matter. The information has been provided on as is where is basis without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been taken to compile this document, the contained information may vary due to changes in law and procedures at various times. SMEDA, its employees or agents do not assume any liability for any financial or other loss resulting from the use of this memorandum. The prospective user of this memorandum is encouraged to carry out due diligence and gather any information which is necessary for making an informed decision, including taking professional advice in addition to relying upon the memorandum.

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2 Introduction of SMEDA

The Small and Medium Enterprises Development Authority (SMEDA) was established in October 1998 with an objective to provide fresh impetus to the economy through development of Small and Medium Enterprises (SMEs).

With a mission "to assist in employment generation and value addition to the national income, through development of the SME sector, by helping increase the number, scale and competitiveness of SMEs", SMEDA has carried out 'sectoral research' to identify policy, access to finance, business development services, strategic initiatives and institutional collaboration and networking initiatives.

Preparation and dissemination of prefeasibility studies in key areas of investment has been a successful hallmark of SME facilitation by SMEDA.

Concurrent to the prefeasibility studies, a broad spectrum of business development services is also offered to the SMEs by SMEDA. These services include identification of experts and consultants and delivery of need based capacity building programs of different types in addition to business guidance through help desk services.

3 Role of Legal Services Cell, SMEDA

The Legal Services Cell (LSC) as part of Business & Sector Development Services (B&SDS) Division of SMEDA plays a key role in providing guidance and overall facilitation and support to SMEs on legal matters.

LSC believes that information dissemination to SMEs on the existing regulatory environment is of paramount importance and plays a pivotal role in their sustainable development.

In order to facilitate SMEs LSC has developed user-friendly systems, which provide them detail description of the laws and regulations including processes and steps required for compliance.

The purpose of this document is to provide SMEs either individuals or companies with information pertaining on the subject which a business entity may have to comply with. Entrepreneurs interested in enhancing their understanding about the procedures and their related rights can also use the document. For the convenience of the readers, sample of various forms, instructions on how fill up the forms and important addresses are also included.

4 Overview

- 1) Securities and Exchange Commission of Pakistan (hereinafter referred to as the “Commission”) established under the Securities and Exchange Ordinance, 1969 (XVII of 1969) is the apex registration and monitoring body for credit rating companies.
- 2) To regulate the Credit Rating Companies the Federal Government has framed the Credit Rating Companies Rules, 1995 (hereinafter referred to as the “Rules, 1995) which deals with the registration licensing and other requirements which have to be followed by Credit Rating Companies.
- 3) Before going further it would be better to describe that what exactly the Credit Rating Company means. As per the rule 2 (c) of the Rules, 1995 “Credit Rating Company” means a company which intends to engage in or is so engaged primarily in the business of evaluation of credit risk through a recognized and formal process of assigning rating to present or proposed loan obligations of any business enterprise.
- 4) As per Rules, 1995, Credit Rating Companies should be registered with the Commission and for such registration Credit rating Company should be incorporated as a limited company under the Companies Ordinance, 1984.
- 5) From the perusal of above paragraphs, it is revealed that in the first instance a Credit Rating Company should be registered with Securities & Exchange Commission of Pakistan as a limited company under Companies Ordinance, 1984 and thereafter it should apply for registration with the Commission.

5 Eligibility for Registration

6. As per Rule 3 of the Rules, 1995, a company desiring to register as a Credit Rating Company should fulfill the following criteria:

6.1 As stated in Para 5 above, in the first instance a Credit Rating Company should be registered with Securities & Exchange Commission of Pakistan as a limited company under Companies Ordinance, 1984. To know about limited company registration procedure with SECP please refer to our document “Company Registration Procedure” available at the SMEDA website

- 6.2 Such Credit Rating company has entered into a joint venture or technical collaboration arrangement with an internationally recognized credit rating institution for a period of not less than five years.

- 6.3 No director, officer or employee of such company has been convicted of fraud or breach of trust or has been adjudicated as insolvent;
- 6.4 The promoters of such company are, in the opinion of the Authority, persons of means and integrity and have special knowledge of matters which the company may have to deal with as a credit rating company; and
- 6.5 The chief executive of the company is not chief executive of any other company or holding similar position in any other company.

6 Registration Procedure

- 7) A company, fulfilling the conditions stated above, may make an application for registration in Form 1 (annexed herewith) to the Commission. Application should be accompanied by a fee of one hundred thousand rupees as registration fee and other documents as referred in Form 1.
- 8) The Commission may grant a certificate of registration to such company in Form II (annexed herewith), if it is satisfied after such enquiry and after obtaining such further information as it may consider necessary,-
- (i) *that the applicant is eligible for registration; and*
- (ii) *that it would be in the interest of the capital market so to do;*

7 Renewal of Registration

- 9) The certificate of registration of a company shall be valid for one year and shall be renewable through an application made via Form III(annexed herewith) on payment of a non-refundable fee of two hundred and fifty thousand rupees. The application should be made 3 months prior to the expiry of registration.
- 10) The Commission shall, after making such enquiry and after obtaining such further information as it may consider necessary, renew the registration of such company for one year in Form IV within thirty days of the receipt of the application or further information, as the case may be.

8 Cancellation of Registration

- 11) Where the Commission is of the opinion that a credit rating company has contravened any provision, or has otherwise failed to comply with any requirement of the Ordinance or of any rule or direction made or given there under, the Commission may, if it considers necessary in the public interest so to do, by order in writing, cancel the registration of the

credit rating company. Provided that no such order shall be made except after giving the credit rating company an opportunity of being heard.

9 Other Rules & Regulations

12) As per Rules, 1995, the following rules & regulations should be followed by the credit rating companies for their operations:

12.1 The Commission may, if it is satisfied that it is necessary or expedient so to do in the public interest or in the interest of capital market, by order in writing, give a direction(s) to a credit rating company and such directions should be followed by the Credit Rating Company.

12.2 Every credit rating company shall submit to the Commission a report giving sector-wise details of credit rating notified during the year, fee structure and any other information, as may be specified by the Commission in writing from time to time, within four months of the close of its accounting year. For the purpose of this sub-rule the expression “credit rating” means formal evaluation of credit history of the company and capability of repaying its obligations. Without prejudice to the above, a credit rating company shall furnish to the Authority such other documents, information or explanation relating to its affairs as the Authority may, at any time, by order in writing, require.

12.3 No director of the credit rating company shall be a director of a corporate entity or a business firm or a share holder holding 5% or more of any corporate entity or business firm or in any other way interested in such an entity subject to rating by the rating company. This restriction shall not apply to a director of a rating company nominated as a director of an entity by the Federal Government or a Provincial Government or an institution which is directly or indirectly owned or controlled by the Federal Government or a Provincial Government. The director of the rating company shall inform the Commission of such nomination within fifteen days of the receipt of rating mandate from such entity together with an undertaking that he shall not participate in the rating process of that entity.

12.4 Neither any change in the shareholding of a rating company shall be made nor the chairman and chief executive of a rating company shall be changed without prior approval of the Commission, in writing.

12.5 The Commission may, after expiry of the minimum period of five years as required under Point 6.2 stated above, order cessation of the applicability of the provisions of the stated point to a credit rating company, where the Commission is of the opinion that it would be in the interest of capital market so to do.

- 12.6 No director, officer or employee of the credit rating company shall communicate the information, acquired by him for use for rating purposes, to any other person except where required under law to do so.

10 Important Addresses

Securities and Exchange Commission of Pakistan

National Insurance Corporation Building,

63 Jinnah Avenue,

Blue Area, Islamabad

Telephone : +92-51-111-117-327

Fax : +92-51-9204915

11 ANNEXURES

ANNEXURE "A"

**FORM I [See rule 4 (1)]
FORM OF APPLICATION FOR REGISTRATION
AS A CREDIT RATING COMPANY**

To

The Corporate Law Authority,
Government of Pakistan,
Islamabad.

Dear Sir,

We hereby apply for registration of..... (Name of Credit Rating Company) under rule 4 of the Credit Rating Companies Rules, 1995.

2. A copy of the Memorandum and the Articles of Association is enclosed.
3. Necessary information required in the annex to this Form is furnished. We undertake to keep the information up to date at all times.

Yours faithfully,

Signature of the Chief Executive

Annex to Form I

- 1: Name, address and telephone number(s) of the company.
- 2 : Date and place of incorporation.
- 3: Names and addresses of promoters and directors.
- 4: Details of joint venture or technical collaboration agreement with an internationally recognized credit rating company and a copy of such an agreement and documentary evidence in respect thereof.
- 5: Proposed rating methodology and scale of rating.
- 6: Whether any director has been convicted of fraud or breach of trust.
.....

7: Whether any director has been adjudicated as insolvent.

8: Names and addresses of senior management officers.

9: Whether any officer or employee has been convicted of fraud or
breach of trust

10: Whether any senior management officer has been adjudicated as insolvent or has
suspended payment or has compounded with his creditors.....

11: Previous experience of the promoters/directors in the credit rating field
.....

12: Previous experience of senior management officers.

Note:-

(i) An affidavit shall, from each promoter/director and officer in respect of statement at
serial Nos. 6 and 7, be submitted.

(ii) Certification by the proposed chief executive of the company in respect of statement at
serial Nos. 9 and 10 shall be submitted.

ANNEXURE “B”

FORM-II
(See rule 4(3))
CERTIFICATE OF REGISTRATION AS
CREDIT RATING COMPANY

GOVERNMENT OF PAKISTAN
CORPORATE LAW AUTHORITY

No.

Islamabad, the199

The Corporate Law Authority having considered the application for registration under rule 4 of the Credit Rating Companies Rules, 1995 by.....

(Name of the credit rating company) and being satisfied that the said company is eligible for registration and that it would be in public interest and in the interest of the capital market so to do, hereby grants, in exercise of the powers conferred by rule 4 of the Credit Rating Companies Rules, 1995 registration to _____ subject to the provisions of the Securities and Exchange Ordinance, 1969 (XVII of 1969) and the rules made thereunder.

2. This certificate of registration is valid up to.....

Signature of the Officer

ANNEXURE "C"

FORM-III
(See rule 5(1))
FORM OF APPLICATION FOR RENEWAL OF REGISTRATION
AS A CREDIT RATING COMPANY

To

Corporate Law Authority
Government of Pakistan
Islamabad.

Dear Sir,

We hereby apply for the renewal of the registration
of _____ (Name of the credit rating company)
under rule 5 of the Credit Rating Companies Rules, 1995.

2. The certificate of registration/ certificate of renewal is due to expire on.....
3. Original receipt of the treasury/bank for the fee of Rs being the
renewal fee is enclosed.
4. It is requested that the registration be renewed for the calendar year.....

Yours faithfully,

Signature of the Chief Executive

ANNEXURE "D"

FORM-IV
(See rule 5(2))
CERTIFICATE OF RENEWAL OF REGISTRATION AS
CREDIT RATING COMPANY
GOVERNMENT OF PAKISTAN
CORPORATE LAW AUTHORITY

No.

Islamabad, the199

The Corporate Law Authority having considered the application for renewal of registration under rule 5 of the Credit Rating Companies Rules, 1995 by..... (Name of the credit rating company) and being satisfied that it would be in public interest and in the interest of the capital market to renew the registration of (Name of the credit rating company) hereby grants, in exercise of the powers conferred by rule 5 of the Credit Rating Companies Rules, 1995, certificate of renewal of registration to the said company subject to the provisions of the Securities and Exchange Ordinance, 1969 (XVII of 1969) and the rules made there under.

Signature of the Officer