

Credit Rating Agencies in Bhutan, Nepal, and Bangladesh

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18 December 2014

ADB

Seminar Outline

- A. The Basics of Credit Ratings
- B. DCRA in Bhutan
- C. DCRA in Nepal
- D. DCRAs in Bangladesh

A. The Basics of Credit Ratings

I. The Basics of Credit Ratings

Definitions

Role of a Credit Rating Agency

Benefits of Credit Ratings

What is a Credit Rating?

An informed judgment about an issuer's ability to make timely payment of principal and interest

A professional opinion on the risk of non-fulfillment of a financial promise

An evaluation of credit risk

An assessment of the potential for credit loss

A measure of the likelihood of default on a specific debt instrument

What a Credit Rating is Not

A guarantee or protection against default

A recommendation to purchase, sell or hold a security

A comment on market price, market supply, or investor suitability

An evaluation of other forms of investment risk, such as interest rate risk, prepayment risk

An audit of accounts or testament to authenticity of information supplied by the issuer

The Rating Scale

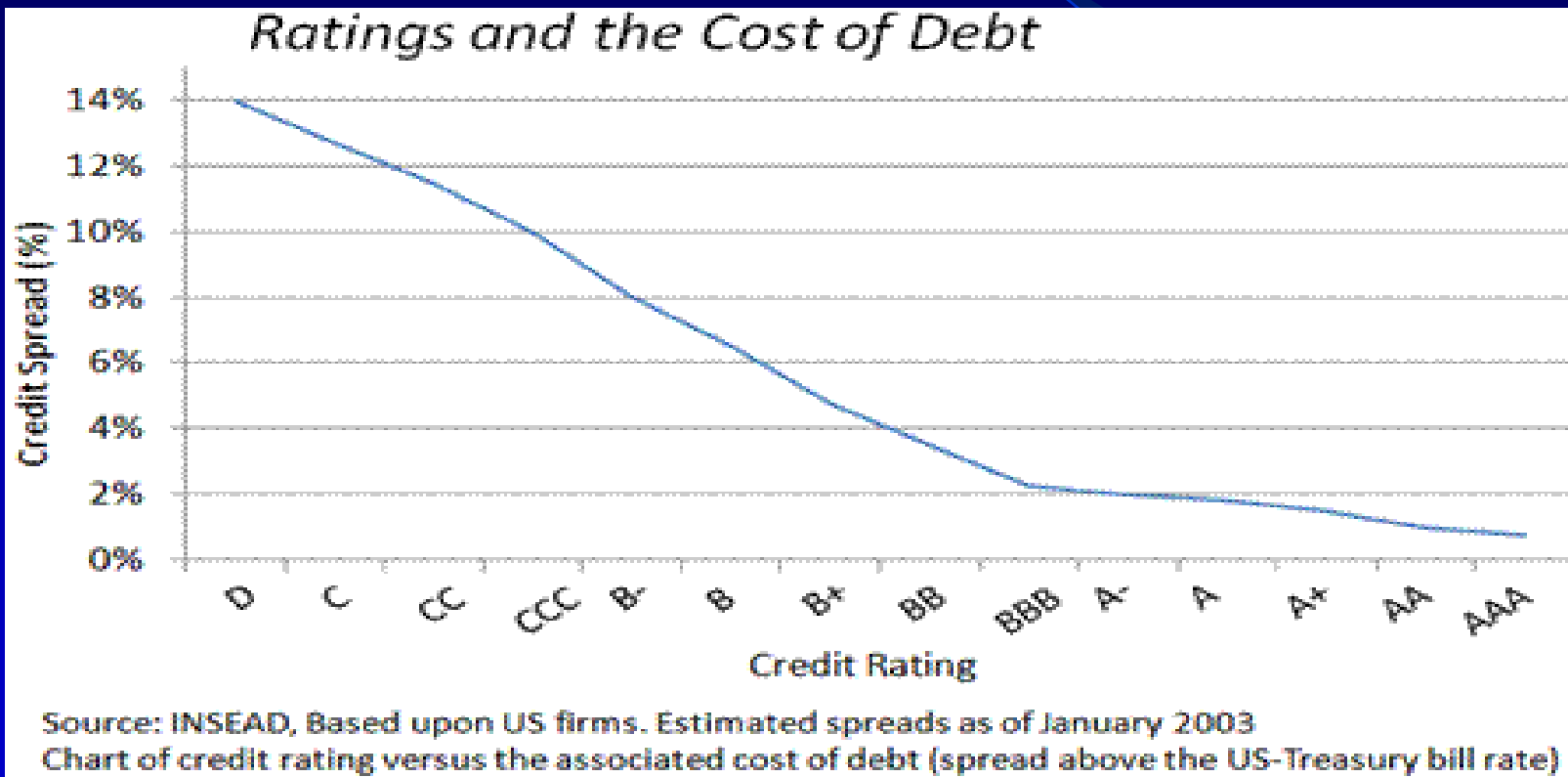
<i>S&P and Fitch</i>	<i>Moody's</i>
AAA	Aaa
AA (AA-)	Aa (Aa3)
A (A+)	A (A1)
BBB	Baa
BB	Ba
B	B
CCC	Caa
CC	Ca
C	C
D	

Sovereign Credit Ratings in the Region*

Country	S&P	Moody's	Fitch
Bangladesh	BB-	Ba3	NR
Burma	NR	NR	NR
Cambodia	B	B2	NR
China	AA-	Aa3	A+
India	BBB-	Baa3	BBB-
Laos	NR	NR	NR
Nepal	NR	NR	NR
Thailand	BBB+	Baa1	BBB+
Vietnam	BB-	B2	B+

- Foreign currency ratings as of January 2014
NR = not rated

The Potential Cost Savings



Why Are Credit Ratings Useful? (I)

For *borrowers* (issuers), ratings have benefits:

1. Increases financial flexibility
2. Broadens market access and investor base, diversifying funding sources
3. Opens door to lower-cost funding; can be more competitive compared to bank loans
4. Strengthens borrower credibility in the market
5. Permits estimating borrowing costs more accurately, facilitating budgetary planning
6. An incentive to continued good performance
7. Ensures optimal distribution and pricing of securities
8. Provides an independent check on SWOT

Why Are Credit Ratings Useful? (II)

1. *For Investors:*

- Reliable, independent guide to default risk
- Reduce the cost to investors of each conducting own credit research, relying instead on one professional credit assessor
- Facilitate comparisons & sound portfolio management

2. *For Regulators:*

- Help assure health and stability of financial system
- Help support standards of financial disclosure
- Promote efficiency by reducing market volatility

3. *For Brokers and Underwriters:*

- Help in planning, pricing and placement of securities

Why Are Credit Ratings Useful? (III)

For the Market:

1. Facilitate the provision of financing by establishing measures of creditworthiness
2. Contribute to efficient allocation of savings and investment which supports faster economic growth
3. Promote honesty and credit discipline—the cornerstone to a business environment
4. Reduce uncertainty, rumours, arbitrage and discrepancies in information, helping to lower risk premiums
5. Enhance transparency and promote accountability

Why Are Credit Ratings Useful? (IV)

For the Market:

6. Stimulate better corporate governance
7. Promote deeper, more liquid financial markets
8. Will act as incentive for banks to be more efficient and attentive in their lending practices
9. Will encourage removal of barriers to doing business
10. Aid adjustments in pricing of securities

B. DCRA in Bhutan

Benefits to Bhutan of a CRA (I)

- ✓ Provides the market with new financial information
- ✓ Creates an enabling environment for investment
- ✓ Helps build financial infrastructure and credit awareness
- ✓ Increases the number and types of securities, thereby broadening and deepening the market
- ✓ Helps raise funds from the capital markets, both domestic and foreign, including IPOs

Benefits to Bhutan of a CRA (II)

- ✓ Facilitates decisions by showing differences in credit risks among alternative investment options
- ✓ Helps establish creditworthiness of corporate or project borrowers
- ✓ Improves banks' lending criteria, thus reducing NPLs
- ✓ Helps regulators in their oversight function

CRA Supports National Goals

The **11th 5-Year Plan** calls for more self-reliance and more emphasis on private sector development

Two GNH Pillars: good governance and sustainable economic development. Both will be promoted by greater transparency and financial accountability.

The 2010 Economic Development Policy seeks a government policy environment that minimizes the cost of business and facilitates FDI

FDI Policy 2010: Focus area is creation of a knowledge society

Druk Holding and Investments: One of its mandates is "to lead and stimulate private sector development."

The CRA Environment in Bhutan

Success Factors for a CRA

Constraints to a CRA

Success Factors for a CRA In an Emerging Market

1. Government must be committed to market-driven interest rates
2. Legal and regulatory environment must be supportive and conducive to capital formation
3. All participants must be convinced of the utility of ratings
4. Accounting and disclosure rules must meet international standards
5. CRA must be independent from outside pressure from issuers and government
6. Market must be big and deep enough for CRA's products – ratings paid for by issuers and research paid for by investors

Roadblocks to a CRA in Bhutan

- ❖ Narrow economic base dominated by public sector firms
- ❖ Lack of capacity, i.e., financial analytical skills
- ❖ Underdeveloped accounting and auditing professions
- ❖ Few corporate bond issues in the market, no securities underwriters, and lack of understanding of CRA function
- ❖ Few issuers and few debt instruments so subdued demand for credit ratings
- ❖ Possible legal constraints to FDI and joint ventures

Resistance to a New CRA

Issuers in the market may be reluctant, fearing

- (a) Scrutiny and public disclosure
- (b) A "report card" published on their practices
- (c) Their confidential info will be leaked to competitors.

Commercial banks may see threat to their lending role when their corporate clients finance through the capital markets

Prospective corporate debt issuers could be unwilling to undergo tedious rating process, let alone be asked to pay for it, when the banks are ready and willing to lend with less hassle

Offsetting the Resistance to a CRA

- ❑ RMA must take leading, guiding role, educating participants on need for and benefits of a CRA
- ❑ New CRA itself must extensively explain ratings concepts — what they are, how they work, and benefits to the market
- ❑ Issuers (banks, corporates, projects) must realize they have to abide by world standards of disclosure and creditworthiness if they want access to world pool of savings
- ❑ The Credit Information Bureau is helping create a credit culture, but it must be upgraded
- ❑ Solution: Start small and “grow into” a full CRA

Preliminary Recommendations

1. Paths NOT to Take
2. A Regulatory Approach
3. IOSCO Principles
4. Preliminary Conclusions
5. Recommended Actions

Two Paths NOT to Take with a CRA

- A. Government Ownership of a CRA
- B. Mandatory Ratings

A. Government Ownership of a CRA

Advantages of Government ownership of local CRA:

1. Would be consistent with existing regulations

Disadvantages of Government ownership of local CRA:

1. State-owned CRAs not common or best practice
2. Would make investors skeptical of rating results
3. RMA staff not trained for a commercial business
4. Would "crowd out" and discourage rise of private CRAs
5. Would raise questions of conflict of interest
6. How can RMA own it and also regulate it?

B. Mandatory Ratings

Requiring ratings on all issues has many negative consequences:

1. Investors assume ratings are government “approved” and therefore accurate
2. Investors use ratings only because they are ordered to do so, with no regard for their meaning or quality
3. Artificially creates revenues for rating industry
4. Financial Stability Board—“remove from regulations all references to mandatory ratings”

NOT the way to accelerate market evolution

The Need for Regulation

Markets are not fully efficient. Failures, abuses and conflicts of interest can and do occur

Government regulation required to provide (a) protection to market participants and (b) appropriate incentives to CRAs, issuers and investors

International Organization of Securities Commissions (IOSCO) has a set of rules & principles for CRAs that has gained widespread acceptance

International Organization of Securities Commissions (IOSCO)

IOSCO = 205 securities regulators around the world that set standards for financial markets

IOSCO produced Code of Conduct for CRAs in 2004 dealing with conflicts of interest, transparency of ratings, fair procedures, and responsibilities to issuers and to the investing public

- CRAs are required to accept external oversight and to affirm & disclose compliance; sanctions on CRA for non-compliance
- Aim: to promote investor protection and safeguard the integrity of the rating process
- **IOSCO code is best practice and recommended for Bhutan**

IOSCO's Four Principles re CRAs

1. Ratings should help reduce information asymmetries between borrowers and lenders.
 2. CRA ratings decisions should be independent, free from political / economic pressures & from conflicts of interest.
 3. CRAs should make disclosure and transparency an objective in their ratings activities.
 4. CRAs should maintain in confidence all non-public information communicated to them by any issuer.
- ❖ **Objective:** to protect investors, ensure that securities markets are fair, efficient, and transparent, and reduce systemic risk

Preliminary Conclusions

1. Financial system in Bhutan is not ready yet for a full credit ratings system
2. Not enough issuers to sustain a debt securities market or permit a profitable CRA
3. However, important to put a framework and regulations in place now so that market can grow into the framework
4. Thus, we recommend creating a CRA that can develop the ratings market in a timely way without major constraints

Preliminary Conclusions

5. International licensing procedures and a regulatory framework exist for a CRA and can be adapted to the Bhutanese context
6. Foreign CRAs have tested methodologies for rating various entities and their TA should be engaged
7. As the rating market develops, the CRA can sustain itself with other fee-generating activities, such as score sheets for SMEs or ranking companies on corporate governance
8. Three options for structure of a Bhutanese CRA

Options for CRA Structure

I. 100% ownership by Bhutanese financial institutions + RMA

Pros:

1. A familiar framework in Bhutan, e.g., the CIB

Cons:

1. Current FIs do not have the skills or experience
2. High initial costs include staffing, training, travel and equipment and a willing owner
3. Not enough bond issuance for a CRA to cover its costs
4. Government ownership of a CRA is not the optimal path
5. Does not promote the private sector

Options for CRA Structure

II. Joint Venture with foreign CRA

Pros:

1. Provides tested methodologies, software and training
2. Can begin activities earlier, energizing the capital market
3. JV precedent exists with Druk PNB Bank

Cons:

1. Costs may be prohibitive for local partner
2. Difficult to implement because of lack of local expertise; importing expertise will be expensive

Options for CRA Structure

III. The Local Branch Office Approach – A foreign CRA operating through a local branch office

Pros:

1. Fastest and least expensive option
2. Provides tested knowledge transfer
3. Unique situation in Bhutan requires unique solution

Cons:

1. Risk that foreign partner will not bring needed expertise and training or stay long enough

Recommended Actions

1. RMA should take leading, facilitating role in CRA development, e.g., establish conducive legal and regulatory policy framework
2. Continue working on the “enabling environment” for private sector growth, e.g., easing barriers to foreign ownership, knowledge transfer, and business startups
3. Continue addressing the gaps in accounting standards, financial statements, and skills capacity so that credits are evaluated on a sounder basis
4. Continue supporting activities to spread the credit culture, e.g., the credit information bureau, collateral registry

Recommended Actions

5. Authorize branches of foreign CRAs to operate in Bhutan (fastest, easiest, least expensive option)
6. Modify current regulations, e.g., Regulations for Issue of Corporate Bond 2012 of MoEA
7. Adopt as CRA Regulation the IOSCO standards for CRA licensing, operations and oversight in line with Section 362 of the Financial Services Act 2011
8. RMA must address its understaffing and capacity deficit if it is to be an effective regulator

Stakeholder Consultations (I)

General agreement: (1) the timing is right for credit rating services in Bhutan, and (2) foreign CRAs should be allowed to operate here through a branch office.

Unlikely for a Bhutanese CRA industry to be established otherwise.

Bhutan will soon lose access to donor grants and low concessional loans, necessitating other sources of finance. A local bond market with a CRA can fill the gap.

Stakeholder Consultations (II)

If few pending debt instruments for a CRA to rate, what other services could a new CRA introduce?

- Educating the market about the benefit of ratings
- Rating or scoring SMEs
- Ranking listed companies in terms of the quality of their corporate governance
- Acting as an information intermediary, publishing credit-related research
- Grading the performance of investment funds
- Analyzing or scoring IPOs

Drafted for RMA Consideration

Regulatory Approach: licensing & disclosure

Proposed Regulations for CRAs

- Minimum eligibility requirements for a foreign CRA to operate in Bhutan, including proof of competence and a code of conduct
- Procedures and qualifications for licensing at CRA
- A set of mandatory best practices the CRA must follow, built around the IOSCO principles

RMA has submitted the Draft CRA Regulation for public comment (responses due by 17 May)

IOSCO's Four Principles re CRAs

1. Ratings should aim to reduce information asymmetries between borrowers and lenders.
 2. CRA ratings decisions should be independent, free from political / economic pressures & from conflicts of interest.
 3. CRAs should make disclosure and transparency an objective in their ratings activities.
 4. CRAs should maintain in confidence all non-public information communicated to them by any issuer.
- ❖ **Objective:** to protect investors, ensure securities markets are fair, efficient, and transparent, and reduce systemic risk

CRA Monitoring and Supervision

- ❑ The RMA to adopt rules that require regular CRA reporting of its policies and practices.
- ❑ Regular supervision permits the RMA to identify problems in sufficient time to neutralize them.
- ❑ Two principal objectives in RMA oversight:
 1. Determining whether investors are at risk
 2. Determining whether the CRA is in compliance with its regulatory obligations.

ONSITE Inspection Manual for CRAs

Purpose of annual onsite examination: to verify the CRA is in compliance with IOSCO best practices:

- ✓ Whether the CRA is conducting its business in accordance with its established policies and rating methodologies;
- ✓ Whether the CRA is following its code of conduct and its policy on managing potential conflicts of interest;
- ✓ Whether the CRA has corrected deficiencies uncovered during onsite inspections or offsite supervision by the RMA;
- ✓ Whether the CRA has appropriate supervisory, governance and compliance controls in place; and
- ✓ How the CRA is processing any complaints it may receive from market participants

OFFSITE Supervision Manual for CRAs

Manual provides a framework for RMA supervision of a CRA by enumerating:

- i. the RMA's scope of responsibilities
- ii. the information and documents the CRA must periodically supply to the RMA as part of their compliance obligations
- iii. the RMA's options in the case of CRA non-compliance with these and other regulations or applicable laws

III. Next Steps

1. Adopt the CRA Regulation
2. Develop and implement a CRA plan
3. Enhance RMA regulatory capacity

Implementing a CRA Plan (I)

1. Promote Bhutan as “open for business” for foreign CRAs
2. Facilitate a foreign CRA branch office option, *specifically lifting the FDI 51% ownership limit to 100%*
3. Develop a survey to determine interest of foreign CRAs; then open dialogue with foreign regulators
4. Approach these countries to offer branch office opportunity – Bangladesh, Pakistan, Indonesia, Malaysia, Philippines, Thailand, and India (already expressed interest)

Implementing a CRA Plan (II)

5. Draft MoU based on IOSCO model and execute with target countries' regulatory authorities
6. Accept and process the applications the RMA receives from interested parties
7. Receive a CRA delegation from these countries to negotiate details
8. License one or more CRAs subject to their agreement on phased approach
9. Aim for opening CRA branch office in 2015-16

RMA "To Do" List

Take the lead in facilitating CRA development:

1. Establish a conducive legal and regulatory policy framework
2. Address its understaffing and capacity deficits in order to be a more effective regulator
3. Coordinate with MOEA / FDI
4. Undertake additional study tours of regulators & CRAs
5. Support activities to spread the credit culture (e.g., the credit information bureau, collateral registry)

C. DCRA in Nepal

Regulatory framework for credit rating agency in Nepal

Legal framework for Credit Rating agency

Securities act, 2007

- Empowered SEBON to make regulation related with credit rating agency

Credit Rating Services regulation, 2067

- Licensing procedures
- Capital requirement and ownership structure
- Qualification of board of directors
- Procedures for rating
- Codes of conduct

Principles related with CRA

Independency

- Rating decision should be independent and free from political or economic pressures

Conflict of Interest

- Rating should be free from conflicts of interest arising due to the CRA's ownership structure, business or the financial interests of the CRA's employees

Confidentiality

- Confidentiality should be maintained regarding all non-public information communicated to CRA by any issuer, or its agents

Integrity

- CRA should work with high integrity

Corporate Governance

Codes of conduct for CRA (Annex-10 of CRA regulation)

Internal codes of conduct for employees

- Staffs can not trade on the rated securities
- Staffs have to report trading of unrated securities
- Maintain secrecy of information
- Should not be involved in insider trading
- Should not spread misleading information or rumor in market

CRA can not provide rating to its promoters

CRA can not provide rating of a company in which its promoter has stake more than 1 %

Ownership structure and capital requirement

- CRA can be established only as a Joint venture with foreign CRA
- Ownership of foreign CRA: 25 % to 75%
- Other owners: Credit Information Bureau, Corporate bodies and individuals with qualifications as prescribed
- Capital requirement:
 - Paid up capital: Minimum Rs.2,00,00,000
 - Net worth: Minimum 75 % of paid up capital

Qualification of foreign CRA

Licensed by the concerned foreign regulator

Net worth:

- Minimum Rs. 500 Million

Experience in rating:

- Minimum 5 years

Letter of intent (LOI)

Application to be submitted by foreign CRA for LOI to establish a credit rating company

Documents to be submitted:

- Company registration certificate
- Memorandum of association and Articles of association
- License by foreign Regulator
- Decision of the board of directors regarding establishment of CRA in Nepal
- Details Of Credit Rating business in past three years
- Agreement between Nepali partner and CRA for Joint venture
- Ownership structure

Letter of intent (contd.)

Granting LOI to Foreign CRA

Foreign CRA will register a joint venture company in ROC

CRA should be established and applied for license within two years from the date of getting LOI

The LOI will be cancelled automatically in case of failure to apply for license within the stipulated time.

Licensing procedure

Documents to be submitted with the application for license:

- Company registration certificate
- Memorandum of association and Articles of association
- Details Of CEO and BOD
- Description of proposed office location, space, office infrastructure, human resource and organizational structure
- Decision of the board of directors regarding obtaining the license of CRA
- Three years business plan including projected financial statements

Licensing procedure (contd.)

Once SEBON is satisfied with the documents, SEBON informs the applicant to set up necessary infrastructure

Infrastructure to be set up within six months

SEBON will inspect the infrastructure within 15 days once it gets the information regarding the infrastructure

SEBON will grant license if it is satisfied with the infrastructure made by the applicant

License to be renewed within three months after the expiry of each fiscal year

Qualifications of Board of Directors

Qualification:

- Chartered account or minimum masters degree in economics or finance or management or commercial law

Experience:

- Minimum five years in the field of industries or financial market

Directors should not be:

- Punished against fraud or criminal offence
- Insolvent
- Blacklisted by CIB
- In any position in listed company, SBPs, stock exchange and SEBON

Credit Rating Agency in Nepal

SEBON granted license to ICRA Nepal Ltd. on 2 October, 2012

- Paid Up Capital : Rs. 2,00,00,000

Ownership structure of ICRA Nepal

- ICRA India Ltd 51%
- Nepali Bank and Financial Institutions 19%
- Credit Information Bureau 5%
- Himalaya Infrastructure Fund Ltd. 4%
- Individual (Nepali) 21%
- Operation started from 23 December 2012

Composition of Board of Directors of ICRA Nepal

ICRA India	2
Credit Information Bureau	1
Himalayan Infrastructure Fund Ltd.	1
ICRA Nepal	1



Operational modality of CRA

Operational manual

Rating committee to be formed

Minimum two CA, two staffs with masters degree and one compliance officer

Monitoring of rating by CRA upto three years

Publication of rating

- website of CRA
- Press release
- Prospectus

Instruments to be rated

Issue of common shares

- For issue of more than Rs.3,00,00,000.

Rights share

Issue of Debenture and bonds

Preference Share

Issue of shares with premium

Further public issue

Mutual fund (sponsor and fund manager)

Other securities or instruments as prescribed by SEBON

CRA Can provide rating to a person/company who wants to take loan from bank

Licensing fee and service fee

Application fee:	Rs.10,000
Licensing fee:	Rs.1,50,000
Annual fee:	Rs.1,00,000

Rating fees :

- 0.10 % of issued amount or not less than Rs. 1,50,000 (First Year)

Rating monitoring (annual) Fees:

- 0.01 % of issued amount or not less than Rs. 50,000 of issued amount

Fees for other securities: As approved by SEBON

Fees to SEBON: 3 % of total fees collected by CRA

Reporting provisions

CRA to report every ratings to SEBON

Quarterly Report to SEBON

CRA to report to SEBON

- If the promoter, director or the executive chief is black listed
- If changes in management or organizational structure
- If change of compliance officer
- If any proceeding against the promoter, director or the executive chief

Supervisory and enforcement framework

SEBON has full authority for regulation and supervision of CRA

Supervision Department in SEBON

Supervision team in SEBON (for on-site inspection)

SEBON may take disciplinary actions

- Warning
- Order to take corrective actions
- Monetary fine (upto Rs. 2,00,000)
- Suspend/cancellation of license

ICRA Nepal Timeline

- 14 Jan 2011 - Joint Venture Agreement signed between ICRA Limited and local investors to establish a JV Company to operate Credit Rating Business in Nepal
- 6 Jul 2011 - Issuance of Credit Rating Regulation, 2068 by Securities Board of Nepal (SEBON)
- 16 Aug 2011 - ICRA Limited obtains Letter of consent from SEBON for establishing CRA as a Joint Venture
- 11 Nov 2011 - ICRA Nepal Limited incorporated
- Appointment of Managing Director
 - ICRA Nepal obtains permission from NRB to bring in equity from ICRA Ltd.
 - Appointment of Analyst and other management teams
- 3 Oct 2012 - ICRA Nepal obtains license from SEBON
- SEBON Inspects infrastructures - manpower, physical and software
- 2
- Contd.

ICRA Nepal Timeline

3 Dec 2012 - ICRA Nepal got its letter for commencement of business from Office of Companies Registrar (OCR)

- ICRA Nepal finalized the Rating products, process and methodology, reports to SEBON and makes public

22 Feb 2013 - Securities Board of Nepal issued the cutoff date for mandatory rating

6 Mar 2013 - ICRA Nepal got its first mandate from Commercial Bank for Bond Rating

21 Apr 2013 - First rating published for Bond Rating.

30 Apr 2014 - 24 Rating/Grading Assigned out of which 22 has been accepted

Issuer Rating	- 3
Debt Instrument Rating	- 4
Equity Instrument Rating	- 14
Fund Management Quality Rating	- 1

Types of CRAs

ICRA Nepal is the only credit rating agency operating in Nepal

- Types of Credit Rating Services provided by ICRA Nepal
 - Company Related
 - Issuer Rating
 - Fund Management Quality Rating
 - Instrument Related
 - Debt Rating
 - IPO/Rights Issue Grading
- New products in pipeline with regulatory consent
 - Borrowers/ Lines of Credit Rating
 - Claims Paying Ability Ratings for Insurance Companies

Types of Clients

Banks and Financial Institutions

Hydropower Companies

Micro-finance Institutions

Mutual Funds (Sponsors and Fund Managers)

Business Drivers for Future

- a) With the initial experience and a Rating bench-mark set, demand for new products including Borrowers/ Lines of Credit Rating is expected.
- b) Developing awareness on the use of Risk-Return and Rating information is a critical aspect
- c) Central Bank's initiatives to implement the full fledged BASEL accord in the Commercial Banks in the near future.
- d) Increasing assets size of banking & insurance sector required more capital in near future, which will also help in the development of capital market.
- e) Possibility of infrastructure development with new infrastructure (including hydro project) project in country with the prospects of conclusion of peace process.
- f) Development of Capital Market after the CA Election held on Nov 2013.
- g) Availability of Analytical manpower locally and capacity enhancing remains a challenge unless the demand for Rating substantially grows.

D. DCRA in Bangladesh

DCRAs in Bangladesh

Sl.	Name of Credit Rating Company	Commencement	ECAI Status	Joint Venture/ Technical Collaboration
1	Credit Rating Information and Services Ltd. (CRISL)	21 Aug 2002	29 Apr 2009	Rating Agency Malaysia Berhad / JCR-VIS Pakistan Ltd.
2	Credit Rating Agency of Bangladesh Ltd. (CRAB)	24 Feb 2003	29 Apr 2009	ICRA Limited , An Associate of Moody's Investor Service
3	Emerging Credit Rating Ltd. (ECRL)	22 Jun 2010	25 Oct 2010	Malaysia Rating Corporation Berhad
4	National Credit Rating Ltd. (NCR)	22 Jun 2010	25 Oct 2010	The Pakistan Credit Rating Agency Ltd.
5	ARGUS Credit Rating Services Ltd.	21 Jul 2011	16 Nov 2011	DP Information Group, Singapore
6	WASO Credit Rating Company (BD) Ltd.	15 Feb 2012	2 Aug 2012	Financial Intelligence Services Ltd., Hong Kong
7	Alpha Credit Rating Ltd.	20 Feb 2012	29 Oct 2012	Istanbul International Rating Services Inc. (TurkRating)
8	The Bangladesh Rating Agency Ltd. (For SME Only)	07 Mar 2012	31 Oct 2013	Dun & Bradstreet South Asia Middle East Ltd.

Source: Website of the respective rating companies

Regulatory Framework

Rating in Bangladesh ?



Purpose/Regulatory Requirement for Rating

- **Rating in Bangladesh is Regulatory Driven**
- **The Credit Rating Agencies Rules 1996** issued by the Securities & Exchange Commission requires that the following instruments be rated prior to making issuance and that the information on rating be incorporated in the prospectus of offer documents:
 - **Public offering of all debt instruments:** bond, debenture, commercial paper, structured finance (asset/mortgage backed securities) and preference shares
 - **Public issue of shares at a premium**
- Securities & Exchange Commission through its **Securities and Exchange (Rights Issue) Rules, 2006** requires rating of the followings:
 - **All rights issue at premium**

Purpose/Regulatory Requirement for Rating..... contd

- **The SEC Rules 2004 (asset backed security issue)** requires the credit rating of asset pools to be securitized with optional requirements of credit rating of the originator.
- **Bangladesh Bank Directives** require mandatory credit rating for the followings:
 - **All Banks on an annual basis**
 - **All Financial Institutes in case of IPO**
- **IDRA (the then Chief Controller of Insurance) Circulars** require mandatory credit rating for the followings:
 - **All General Insurance companies on an annual basis**
 - **All Life Insurance companies on biennial basis**

Thank you

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The logo of the Asian Development Bank (ADB) is located in the bottom right corner. It consists of the letters "ADB" in a white, serif font, centered within a dark blue square.

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