

Chairman of the SCA Board of Directors' Decision No. (18 /R) of 2018 Concerning the Regulations as to Licensing Credit Rating Agencies

The Chairman of the Board of Directors of the Securities and Commodities Authority , having considered the provisions of

- Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities Authority and Market, and amendments thereof;
- Federal Decree No. (130) of 2017 concerning the Formation of the Cabinet of the United Arab Emirates;
- The Cabinet Resolution No. (14/8W) of 2017 concerning the Restructuring of the Board of the Securities and Commodities Authority;
- The Cabinet Resolution No. (13) of 2000 concerning the Regulation of the Functioning of the Securities and Commodities Authority, and amendments thereof;
- Based on the approval of the Board of Directors at its 18th meeting of the Fourth Term held on 28/09/2017,

Has decided as follows:

Definitions

Article (1)

The following phrases and words shall have the meanings assigned thereto herein unless the context indicates otherwise:

State:	The United Arab Emirates.
Law:	The Federal Law No. (4) of 2000 concerning the Emirates Securities and Commodities Authority and Market and amendments thereof.
Authority:	The Securities and Commodities Authority.
Board:	The Board of Directors of the Securities and Commodities Authority.
Market:	The securities and commodities market licensed in the State by the Authority.
Securities:	Shares, bonds and notes issued by joint stock companies, and bonds and notes issued by the federal government and local governments, public entities and public institutions in the State and any other local or non-local financial instruments accepted by the Authority.
Foreign	Shares, bonds, Sukuk, units of investment funds, commodities

Financial Instruments:	contracts, derivatives and other securities or financial instruments issued by foreign issuers.
Commodities:	Agricultural products, minerals, natural resources and any other commodities traded by contracts.
Commodity Contracts:	Options and Futures contracts and any regulated contracts to trade commodities in the market.
Derivatives:	Financial contracts that are valued at the value of underlying financial assets – such as commodities, indices, currencies or other financial instruments approved by the Board - contained in such contracts.
Financial Products:	Securities, commodity contracts, derivatives, or foreign financial instruments.
Classified Entity:	Issuer of financial products.
Rating Category:	Symbols (letters or digits) used in the rating to provide a relative measure of the risk to distinguish between the different risks of the rated entity or rated financial products.
Credit Rating:	A periodic measure to determine and assess the ability of the rated entity to meet its financial liabilities, and potential risks that may affect it, and to evaluate the financial products and potential risks of acquiring them by the investor, in accordance with the provisions of this Decision.
Rating Agency:	The corporate person licensed to practice the activity of credit rating in accordance with the provisions of this Decision.
Related Parties:	The following shall be related parties to the rating agency or rated entity: <ol style="list-style-type: none"> 1. Chairman and members of the Board of Directors. 2. Members of the Senior Executive Management and the staff thereof. 3. The companies where any of the persons specified in Clauses (1 & 2) are shareholders of at least 50% of the capital thereof. 4. Parent, affiliate, sister or allied companies.
Similar Regulator:	A regulatory body that is a regular or associated member with the International Organization of Securities Commissions (IOSCO), and applies controls and procedures that are not less than those applicable in the State with respect to know-your-customer (KYC), Customer Due Diligence (CDD), and Anti-Money Laundering / Combating the Financing of Terrorism (AML / CFT).

Article (2)

The activity of credit rating may only be practiced in the State through the credit rating agency subject to obtaining a license from the Authority in accordance with the terms and conditions set forth hereunder.

Article (3)

Scope of Implementation

1. The provisions of this Decision shall apply to all matters related to practicing the activity of credit rating within the State.
2. This Decision shall not apply to the following:
 - a. Credit Rating whose subject is a federal or local government party, companies wholly owned by any of such parties or any of their financial products at the request of any of them.
 - b. The Credit Rating of a Rated Entity at its request for its internal use, whether for the purpose of its own structuring, risk management, financial position evaluation, internal business purposes or for evaluating the contractors thereof, provided that such rating may not be published, advertised or sent to third parties by any means unless for the purpose of mandatory disclosure to regulator authorities having jurisdiction thereon.
 - c. Credit Rating issued to any person upon the request thereof, exclusively submitted to the requester, and not designated for public disclosure, publication or distribution.

Chapter I: Licensing

Licensing Conditions

Article (4)

I. To license the practice of credit rating activity, the following conditions must be satisfied:

1. The applicant shall be a legal person incorporated within the State in accordance with the provisions of the Commercial Companies Law; or a branch of a foreign company provided that the parent company must be exercising the same activity and is subject to the supervision of a Similar Regulator to the Authority.
2. A non-objection certificate (NOC) must be obtained from the UAE Central Bank or the Insurance Authority if the license applicant is subject to any of them.

3. The activity of Credit Rating must be the purpose, or one of the purposes, of the company or branch.
 4. The company's memorandum of association must be authenticated before the official parties.
 5. The paid-up capital must not be less than Two Million (2,000,000.00) UAE Dirhams.
 6. The license fees of AED (20,000) must be paid.
 7. The required technical and administrative staff must be made available to practice the activity in accordance with the regulatory controls of the financial activities and services issued by the Authority concerning the activity requirements and the accreditation requirements for certain jobs.
 8. Provision of the appropriate headquarters necessary for practicing the activity.
 9. Provision of an internal control system to ensure proper implementation of the law, regulations, resolutions and circulars issued pursuant thereto and the internal bylaws in force in the markets.
 10. Provision of a risk management operational guide that includes enumeration and definition of the potential risks that the company may face, and how to address, monitor and report on such risks whenever they arise, so as to enable the company to continue its activity and comply with the provisions hereunder.
 11. Any additional conditions or requirements as determined by the Authority in accordance with the requirements of public interest.
- II. A license applicant may submit an undertaking to satisfy the conditions set forth under items (7 - 10) of Clause (I) herein after approval of the application thereof within a period as determined by the Authority, otherwise the approval shall be considered as null and void.
- III. All licensing requirements must be maintained on a continuous basis.

Article (5)

License Application

1. The license application for the Credit Rating activity shall be submitted to the Authority on the form prepared for this purpose, enclosing the application's supporting information, data and documents, particularly:
 - a. The legal form of the license applicant with a report showing the names of members of the Board of Directors or Management Board, and the executive management.
 - b. Copy of the memorandum and articles of association.

- c. A statement showing any legal or judicial material obligations or liabilities relating to the license applicant.
 - d. A statement showing the technical systems used and the proposed work procedures to practice the activity.
 - e. Payment receipt of the prescribed license fee.
2. The Authority may request any further clarifications, information or documents, provided they are to be submitted within a period of no longer than (30) days from the date of requesting the same, other the Authority may consider the application null and void.
3. The Authority shall issue its decision approving or rejecting the license application within a period of no longer than (15) business days from the date of submission of the completed application. A new application may only be submitted after six months from the first application's rejection or the date on which it was considered as rejected.
4. The Authority may suspend the granting of licenses at its discretion for public interest and throughout the period as it deems appropriate.

Article (6)

License Term and Renewal

The license term shall be one year from the date of issue of the license. The license shall be renewed upon an application submitted to the Authority at least one month before the expiration of the license term subject to ensuring that the Credit Rating Agency has continued to be compliant with the provisions of this Decision and has paid the renewal fee of AED (10,000). The Authority may suspend the Credit Rating Agency from practicing the activity in the event of failure to submit a complete application for license renewal within the prescribed period.

Article (7)

Revocation of the License

1. A Credit Rating Agency, wishing to finally cease to practice the activity shall apply to the Authority for the revocation of its license, subject to satisfaction of the conditions and requirements of revoking the license as determined by the Authority within a period of no more than (30) days, in addition to payment of the license revocation fee of AED 1000.

The revocation decision shall be issued by the Authority and published pursuant to the procedures as determined by the Authority after ensuring that there are no liabilities arising from practicing the activity.

Chapter II: General Obligations of the Credit Rating Agency

Article (8)

A Credit Rating Agency shall take all necessary actions to start the activity and shall, in particular, comply with the following:

1. Develop written internal bylaws within one month of obtaining the license, and provide a copy thereof to the Authority, subject to amendment of the provisions of such bylaws in accordance with the amendments that may be made to the law, regulations, resolutions or circulars issued thereunder; and notify the Authority thereof. The internal bylaws must include the following details:
 - a. Organizational charts showing the management powers and responsibilities exercised by the managers and other employees thereof.
 - b. The head office relationship with its branches, if any, and determination of the powers that may be exercised by the branch.
 - c. The internal recordkeeping system.
 - d. The system of registering customer complaints and the system of receiving inquiries and questions and responding thereto.
 - e. Any other controls set by the Authority.
2. Make periodic review of the internal control system, and the Risk Management's Operational Guide and the continuous updating thereof as commensurate with the nature of business of the Credit Rating Agency in accordance with the common practices in this regard.
3. Develop the professional code of conduct and supervision of the employees to ensure their compliance with the provisions of the law, regulations, resolutions and circulars issued by the Authority, especially those relating to honesty, integrity and conflict of interests; and notify the Authority of any amendments thereon.
4. Create a department composed of one of its senior executives, whose tasks shall be the careful and periodic review of the rating methodologies, models and assumptions, and basic rating categories, and monitoring any substantial changes or amendments and studying the suitability thereof, provided that such department shall be independent of the departments primarily in charge of granting the credit ratings.
5. Create a department within its organizational chart, to be responsible for communication with market participants and the public about any questions or complaints received by the rating agency; and keeping the senior management informed of all such complaints and inquiries
6. **Provide the Authority with the following reports:**
 - I. The financial statements listed below if the entity practices the activity of Credit Rating only:

- a. Quarterly financial reports audited by the external auditor, within a period of no longer than (45) days from the end of the quarterly period, signed by the Chairman of the Board of Directors or his deputy.
 - b. An annual financial report audited by the external auditor, within a period of no longer than (90) days from the end of the financial year, signed by the Board of Directors or Management Board or his deputy.
- II. The financial statements listed below in case of multiple activities of the Credit Rating Agency:
- a. Quarterly financial reports within a period of no longer than (45) days from the end of the quarterly period, signed by the manager in charge of the Credit Rating activity, according to the form prepared by the Authority.
 - b. An annual financial report audited by the external auditor, within a period of no longer than (90) days from the end of the financial year, signed by the manager in charge of the Credit Rating activity, according to the form prepared by the Authority.

7. Notify the Authority before taking any of the following actions:

- a. Amendment of the company's memorandum of association or articles of association.
- b. Addition, deletion or amendment of an activity under the trade license.
- c. Increase or decrease of the capital of the company.
- d. Carry out mergers or acquisitions.
- e. Change of the address, headquarters or branches of the company.
- f. Change of partners or modification of their ownership proportions in the company.

8. Immediately notify the Authority of the following:

- a. Any significant changes or developments in the company, or any deficit affecting its financial position.
- b. Any change in the information or data provided as part of the License Application.
- c. Any change in the membership of the Board of Directors or Management Board.
- d. Any lien or mortgage over the Company's assets, any lawsuits to which the company or any of its employees accredited by the Authority is a party, as related the employee's practicing his duties; and any judgements issued in such lawsuits that would affect the financial position of the Company or be in contrary to the efficiency and fitness of the company or any employee thereof.

- e. Any violations by its employees against the laws, regulations, rules, or circulars in force in the Authority and markets, and the procedures taken in respect to such violations.
9. If the company is licensed for more than one activity, segregate between the activities, and manage the conflict of interests in accordance with the regulations issued by the Authority concerning financial activities and services.
10. Develop a wage structure and policy in line with business objectives and risks, and update such structure and policy on periodic and continuous basis to ensure the independence of the rating operations, provided that such wages shall not be dependent on the revenues generated by such operations.
11. Keep commercial books and records and use computers and other modern technology equipment and software in accordance with the international accounting standards and the controls issued by the Authority, and retain the Credit Rating reports issued thereby, as well as the rating categories, assumptions, models and methodologies upon which such reports have been issued and details of the authors thereof, any disclosures made thereon, the names of its customers and the revenues realized therefrom, and any reports, information or documents required and related to practicing the activity for a period of (10) years. Backup copies of such data and documents shall be retained for the same period while ensuring that they are not exposed to any causes of damage, and ensuring that they can be accessed and reviewed and that copies thereof can be obtained.
12. Maintain internal records related to its accredited employees in terms of their qualifications and experience for a period of (5) years from the last rating in which the employee has participated.
13. The Compliance officer may only be dismissed by a decision of the Board of Directors, provided that both the Authority and the Compliance officer shall be notified at least thirty days before such dismissal with explanation of the reasons and grounds for such dismissal.
14. Compliance with all rules, procedures and regulatory requirements established by the Authority.
15. Observe the principles of honesty, integrity, fairness and equality, manage conflicts of interest, and practice the licensed activity with the due diligence in addition to ensuring that the company and its employees comply with all provisions of the law, the regulations issued in implementation thereof, and with the conditions and controls on which the license was issued; take well care of the customer interests; and maintain the confidentiality of information and data related thereto and to the activity.

Chapter III: Obligations Related to Credit Rating

The Credit Rating Quality and Integrity

Article (9)

The Credit Rating Agency and / or its employees shall:

1. Enter into an agreement with the party wishing to obtain credit rating for itself or for its financial products to be dated and signed by both parties and showing all the obligations and conditions between them, especially the conditions related to confidentiality of data and information between them.
2. Use rating categories and basic models and assumptions; and adopt specific, accurate, structured and quality rating methodologies that can be validated and reviewed on periodic basis, and can be back tested and updated according to market and economic changes, and disclose them on a continuous basis.
3. Adopt and implement appropriate measures and criteria to ensure that categories, models, assumptions and methodologies are used objectively.
4. Show the credit rating models that are compliant with the Islamic Shariah.
5. Develop grades to indicate the rating, and define and explain each symbol, number or character in the rating scale used to indicate the rating class category, and the segments of each class category, and disclose them on a continuous basis.
6. Enable its relevant credit rating officers to access the necessary information.
7. Refrain from making the credit rating in the event that the data, information or sources relied on are insufficient or ambiguous to prepare the evaluation, or if the agency is unable to determine an objective Credit Rating.
8. Refrain from issuing a credit rating report if the structured products are new or complex, unless the rating agency has sufficient information and experience to prepare the report.
9. Refrain from rating if there is any case of conflict of interests between the rating agency and/or any of the related parties thereof; and between the rated entity and any of its related parties.
10. Inform the Compliance Officer of any irregularities in or violations against the Credit Rating controls.
11. Document all steps related to the preparation of the Credit Rating Report to enable the procedures of the periodic review process and the internal audit as well as supervision, which are necessary to ensure that all the rules and procedures of reporting are followed and that such report may not be issued under the influence of any conflict of interests.
12. Notify the Rated Entity of the relevant information and data that may have influence on the preparation of a new Credit Rating, or reviewing, updating or withdrawal of a previous Credit Rating. The Rated Entity may review such information and data and provide the Credit Rating Agency with any relevant comments thereon during the period specified by the Rated Entity or as otherwise agreed on.

Independence and Prevention of Conflict of Interests

Article (10)

The Credit Rating Agency and / or its Employees shall:

1. Prepare the Credit Rating with full independence, without being influenced by any factors or relations between the Credit Rating Agency and the Rated Entity or any of the related parties.
2. Refrain from accepting any cash or in-kind gifts, and ensure the quality, independence and integrity of the Credit Rating process from any impact or restrictions.
3. Refrain from providing any advisory services, recommendations or proposals to the Rated Entity or any of its related parties.
4. Refrain from giving any direct or indirect guarantees, confirmations or indications on the outcome of the Credit Rating.
5. Refrain from, and ensure that any parties directly involved in the Credit Rating process refrain from, owning the financial product subject to rating, except for holding investment fund units,.
6. Develop policies and procedures to reduce the likelihood of any conflict of interests, and a mechanism to manage any conflict of interests.
7. Ensure that its employees, involved in preparing the Credit Rating Report, do not intervene or participate in determining the remuneration, fees or commissions for the Credit Rating operations.
8. Review the rating report prepared, supervised, reviewed or audited by any of its employees as soon as that employee joins the employment of the Rated Entity.

Transparency and Disclosure

Article (11)

The Credit Rating Agency shall:

1. Disclose to the public the initial ratings and subsequent changes thereon, the rating categories , methodologies, models and any changes that may occur thereon to enable the users of the Credit Rating to evaluate with accuracy.
2. Disclose in writing, clearly and accurately, any actual or potential conflict of interests that would affect the Credit Rating and ensuring its elimination or management. However, a conflict of interests may not be disclosed if it represents internal information. In this case, the Authority shall be promptly notified and measures to prevent such conflict of interests shall be taken.

3. Disclose to the Authority any remunerations, fees, or commissions received from the Rated Entity and the name of the Rated Entity if such paid fees are more than (5%) of the annual revenues of the Rating Agency.
4. State the means and mechanisms of disclosure related to the Credit Rating Reports issued thereby, and the information and reports required in their prescribed deadlines in accordance with the provisions hereunder.
5. Disclose the rates of annualized demotion or promotion of the Credit Ratings, as well as an accumulative disclosure for every three years and ten years, which represents the transition rates from one rating to another.
6. Disclose to the public, at least once a year, the rates of delinquency under the various rating categories, with differentiating between the geographical regions and business sectors of the rated entities, and indicate whether the delinquency rates of such categories have changed over time.
7. Submit the following reports to the Authority:
 - a. A semi-annual report of the historical information on the default rates of the various rating categories, with differentiating between the major geographical areas of the rated entities, and whether such rates have changed over time.
 - b. An annual report that includes a list of top (20) customers in terms of their contribution to the revenues of the Rating Agency, and names of customers whose contribution to the growth rate of the Agency's revenues in the previous financial year exceeded the total growth rate of its revenues in that year by more than one and a half times, provided that the contribution of each customer shall be more than 0.25% of the total revenues of the Agency in that year. This clause shall apply to the revenues of foreign agencies generated from the practicing the rating activity within the State.
8. An annual transparency report to be submitted to the Authority and shall include the following:
 - a. A description of the Rating Agency's level of compliance with the law, regulations and decisions, and detailed information on its legal structure, and a description of its internal control mechanisms to ensure the quality of the rating reports.
 - b. Statistics on the distribution of the rating agency staff and rating analysts on new ratings, and review of the existing ratings, evaluation methodologies and models, and senior management members.
 - c. Details of its record keeping policy.
 - d. Results of Compliance Officer's annual internal audit.
 - e. The financial information on the revenues generated by the Credit Rating activity and other activities with details for each of them. For a foreign rating agency, the revenues must be based on the revenues generated from the rating activities and other activities practiced in the State.

- f. A statement on the rating governance, including details of the administrative or control committee, and the structure and functions of the executive committee. For a foreign rating agency, the information must be specific to the administrative structure of its branch, the main staff, and administrative reporting lines of its structure and staff.
 - g. Description of any substantial modifications on the rating agency's systems, resources or procedures.
9. Disclosure of any information required to be published and disclosed to the public in both Arabic and English on its website; and must be made available for an appropriate time.

Data of the Credit Rating Report

Article (12)

In preparing the Credit Rating Report, the Credit Rating Agency shall adhere to the following:

- I.** Prepare the Credit Rating Report in a simple, clear, fair and non-misleading style, ensuring that it shall not be misunderstood, using a language that may be understood by the investor, without using any means of deceit, or false or misleading information, and reflecting all the available analyzed information, the mechanisms and methodologies of such analysis.
- II.** The Credit Rating Report shall include the following:
 1. Name of the Credit Rating Agency.
 2. Name and position of the employee who prepared the report, the supervisor on the preparation of the report, the officer in charge of approving the issuance thereof.
 3. Subject of the Credit Rating, and whether it is related to the Rated Entity or the financial product, and the categories, methodologies, models and assumptions of the Rating, as well as the procedures and sources used in preparing the report, and any restrictions on such rating and statement of its risks.
 4. Determination of the type of beneficiary of the Credit Rating Report (specific customer(s) or the public) or on its own initiative.
 5. Indication whether the credit rating is related to a financial product issued recently, the Credit Rating Agency rates such product for the first time, and the rating does not include historical information.
 6. Risks of the credit rating, and expected losses in case of default in payment.
 7. Information relating to the undertakings or guarantees and enforcement mechanisms available to the investors if the Credit Rating is related to asset-backed securities.
 8. The Rating Report's date of first issuance and the last date of updating.

9. Indication whether the credit rating is issued upon the request of the Rated Entity or not, in which case, the methods of obtaining the information about the Rated Entity or the financial product must be disclosed.

III. Review the Credit Rating Report or any update thereof before its issuance, provided that such review shall be made by another competent employee who has not prepared or reviewed the report.

IV. Publish the Credit Rating Report to the public as soon as it is issued.

Obligations Subsequent to the Credit Rating Report Issuance

Article (13)

After issuance of the Rating Report, the Rated Entity shall:

1. Conduct periodic and continuous review of the Rating Report issued thereby (both the initial or subsequent ratings), or upon being aware of any information that may affect the report throughout the period of the review.
2. Notwithstanding Clause (1) herein, the Credit Rating Report shall not be subject to review if it contains a provision that it is not subject to review.
3. Monitor any changes in the market or macroeconomic conditions that may affect the Credit Rating issued thereby through its procedures and arrangements related thereto.
4. Notify the Authority of, and disclose to the public with respect to, any material change or update in the rating categories, models, assumptions, methodologies or grades, indicating the impact of such change on the Credit Rating, and reviewing the Credit Ratings affected by the change within a period of no longer than (6) months from the date thereof.
5. Clearly disclose to the public the date of updating the Credit Rating and, if changed, the validity date, and the date of and reasons for its withdrawal or suspension.

Chapter IV: Control and Penalties

Control and Inspection

Article (14)

In achieving its control and supervision, the Authority may:

1. Take all necessary procedures for the supervision, control and inspection on the Credit Rating Agency and its functions and its accredited employees in order to ensure the extent of compliance with the law and regulations of the Authority, the resolutions, circulars or controls issued in pursuance thereof.

2. Request any clarifications, information, documents or additional data from the Rated Entity, the Credit Rating Agency, its employees or the investors.

Complaints and Violations

Article (15)

The Authority shall be competent to receive complaints and grievances related to the provisions of this Decision in accordance with the regulations and decisions issued in this regard. The Authority may also investigate any irregularities resulting from the inspection or contained in the complaints received by the Authority.

Penalties

Article (16)

- I. The Authority may, in case of violation of the provisions of the law, regulations, resolutions, circulars or controls issued pursuant thereto, impose any of the following penalties:
 1. Issue a warning to the violator.
 2. Impose a monetary fine of no more than the maximum limit of the fine set forth in the law.
 3. Suspend the Credit Rating Agency from practicing the activity for a period of no longer than one year.
- II. The Authority may revoke the license of the Credit Rating Agency in any of the following cases:
 1. Loss of one of the license conditions set forth for hereunder.
 2. Serious breach of any duties or obligations.
 3. Default in the payment of the license annual renewal fee or the prescribed fines.
 4. Non-practice of the activity for a continuous period of (12) months.
 5. Dissolution and liquidation of the company.
 6. Submission of incorrect or misleading data or documents to the Authority.
 7. The issuance of a court order declaring the company bankrupt, or the presence of material risks that may lead to bankruptcy.
 8. Where the company is a party to a lawsuit that would negatively affect its ability to practice the activity

The decision to revoke the license of the Credit Rating Agency shall determine how to act on or settle the liabilities arising from the activity practice. Such decision shall be published in accordance with the procedures determined by the Authority after ensuring that there are no liabilities arising from the activity practice.

III. If the Credit Rating Agency's employees violate the law, regulations, resolutions or circulars issued thereunder, the Authority may impose any of the following penalties:

1. Issue a warning.
2. Suspension of the profession practice for a period of no longer than two months.
3. Revoke the employee accreditation.

Article (17)

The Board may publish the names of violators of the provisions of the Authority's Law, the regulations and resolutions issued thereunder, the violations and penalties imposed thereon in the manner determined by the Board.

Article (18)

1. The Authority may reject any license application or approval, or may associate any of them with such conditions or restrictions as it deems appropriate in accordance with the requirements of the public interest.
2. The Credit Rating Agency shall be subject to the Authority's mandate and control for a period of two years from the date of the license revocation in respect of any act or omission that occurred prior to the revocation of its license or in case of opening an investigation or taking any action against the Agency until the end of such investigation or action.

Article (19)

This Decision shall be published in the Official Gazette and shall come into effect after (30) days commencing on the day following the date of its publication.

Eng. Sultan bin Saeed Al Mansouri
Chairman of the Board

Issued in Abu Dhabi on: 2018/05/15