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Royal Monetary Authority of Bhutan



REGULATION ON CREDIT RATING AGENCIES

June 2014

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REGULATIONS ON CREDIT RATING AGENCIES

ROYAL MONETARY AUTHORITY

Financial Regulation and Supervision Department

In exercise of the powers conferred by the Financial Services Act of Bhutan 2011, the Royal Monetary Authority of Bhutan hereby promulgates these regulations for licensing and supervising credit rating agencies (CRAs).

1. Statement of Policy

CRAs play an important role in the financial sector by rectifying inherent information asymmetries. Ratings can facilitate better informed decisions on investments; promote a risk-based approach to providing financial services; enhance corporate governance, transparency, accountability and fair dealing; and increase the efficiency of the financial sector in allocating resources to productive investments.

CRAs, however, are vulnerable to conflicts of interests arising from the work they do, the manner in which they are compensated and the information they acquire in the course of their rating activities. As the market for credit ratings is inherently inefficient, it is unlikely that market mechanisms alone are sufficient to control the risks inherent in the ratings business. These regulations are designed to address these “market failures” and align the interests of all parties.

These regulations shall govern the licensing, oversight and monitoring of CRAs in accordance with best international practices, to help ensure that CRAs fulfill their role as a significant contributor to the development of an efficient financial sector.

2. Short Title and Commencement

- 2.1 These regulations may be cited as the Credit Rating Agency Regulations, 2014.
- 2.2 These regulations govern the establishment, licensing, operations, oversight and monitoring of credit rating agencies in Bhutan.
- 2.3 These regulations are issued pursuant to Sections 202, 204 and 362 of the Financial Services Act of Bhutan 2011 and must be read in conjunction with the additional requirements of that Act.
- 2.4 These regulations shall come into operation on such date as may be specified by the Royal Monetary Authority of Bhutan by notice in a newspaper of general circulation, and the Authority's website.

- 2.5 The requirements that are pre-conditions for granting a license to a CRA should be met at all times during the CRA's on-going business operations.
- 2.6 A CRA may also engage in related activities, as described herein, as well as any other activities that may be permitted by the Authority.

3. Definitions

The following terms shall have the meanings indicated unless the context clearly indicates otherwise.

- 3.1 "Authority" means the Royal Monetary Authority of Bhutan established under the Royal Monetary Authority Act of Bhutan, 2010.
- 3.2 "Credit rating" means an informed judgment expressed by a credit rating agency to denote the creditworthiness of an issuer of debt securities or the risk of default of a debt obligation and expressed as a letter or other symbol.
- 3.3 "Credit rating agency (CRA)" means a company duly registered under the Companies Act of the Kingdom of Bhutan and duly licensed as such by the Authority in accordance with these regulations.
- 3.4 "Home country regulatory authority" means the official authority or authorities charged with the regulation and supervision of CRAs in the country in which a foreign CRA is domiciled.
- 3.5 "Independent Director" means a director who, apart from receiving a director's remuneration, does not have any other material pecuniary relationship or transactions with the CRA, its promoters, its management, or its subsidiaries, which, in the judgment of its Board of Directors, may affect his/her independence of judgment.
- 3.6 "IOSCO" means the International Organization of Securities Commissions.
- 3.7 "IOSCO CRA Principles" means the Statement of Principles Regarding the Activities of Credit Rating Agencies, as published by IOSCO and revised from time to time.
- 3.8 "IOSCO Code of Conduct" means the Code of Conduct Fundamentals for Credit Rating Agencies as published by IOSCO and revised from time to time.
- 3.9 "IPO grading" means an assessment of the fundamentals of an issuer of equity securities in relation to other issuers of equity securities.

- 3.10 “Ratee” means an issuer or any company or entity rated by a CRA.
- 3.11 “Rating” means a classification, ranking or grading of an instrument, issuer or other entity based on an established scale represented by symbols letters or numbers.
- 3.12 “Rating Committee” means the deliberative body that decides on ratings. It also decides any kind of appeal by a ratee for any disagreement with an initial rating.
- 3.13 “Rating Report” is the document that assigns, publicizes and explains a rating.
- 3.14 “Rating staff” means the staff of a CRA involved in the evaluation and/or rating process.
- 3.15 “Unsolicited rating” means a rating for which the ratee has had no participation in submitting or explaining information about itself, and/or one which has been performed without the consent of the ratee.

4. Licensing

- 4.1 A CRA must apply for, be approved, and issued a license under these regulations before it may operate as a CRA.
- 4.2 An application for a license to operate as a credit rating agency shall be made in writing to the Authority with the undertaking that it shall comply with all the rules, regulations, circulars, directives and instructions that the Authority may prescribe from time to time, in furtherance of promoting objectivity, fairness, competence, transparency and integrity in the conduct of the credit rating business and shall contain the following documents along with a non-refundable application fee of Nu._____ in cash/draft/cheque in favor of the Authority:
 - 4.2.1 Letter of Application (Annexure I);
 - 4.2.2 Application Form (Annexure II);
 - 4.2.3 Biographical Report (Annexure III);
 - 4.2.4 A brief description of the CRA's history, ownership, organization and management;
 - 4.2.5 Identification of the rating staff, members of the Rating Committee, and their individual qualifications and credentials;

- 4.2.6 The Code of Conduct adopted by the CRA;
 - 4.2.7 In the event the application is by a CRA intending to establish a joint-venture with a foreign CRA authorized to operate in another jurisdiction, any permissions required by such foreign CRA's home country regulatory authorities;
 - 4.2.8 Such other additional documents and information as the Authority may require, including ownership and interests in, and affiliations with, other companies.
- 4.3 A licensed CRA may render services provided that they are not contrary to the provisions of the Financial Services Act of Bhutan 2011 (FSA), which may include:
- 4.3.1 Rating the creditworthiness of an issuer of debt securities and/or the risk of default of a debt obligation;
 - 4.3.2 Grading initial public offerings (IPOs) of equity securities (shares);
 - 4.3.3 Rating small and medium-sized enterprises as to their creditworthiness or other qualities;
 - 4.3.4 Rating companies listed on a securities exchange as to their corporate governance or other practices;
 - 4.3.5 Rating the performance of investment funds;
- 4.4 An annual license renewal fee shall be paid by the CRA in such sum as the Authority may determine.
- 4.5 The validity of the license shall continue until revoked for good cause by the Authority.
- 4.6 A CRA shall immediately notify the Authority of any material change made to documentation provided in support of its application for licensing.

5. Minimum Eligibility Requirements

- 5.1 A CRA must be a duly registered company under the Companies Act of the Kingdom of Bhutan, 2000, and any amendments thereto (Companies Act).
- 5.2 A CRA shall not be considered as a financial institution.
- 5.3 A CRA established as a joint-venture with a foreign company shall comply, in all

respects, with the Foreign Direct Investment (FDI) Policy 2010 (FDI Policy), and the Foreign Direct Investment Rules and Regulations, 2012 (FDI Regulations), except that the Maximum Foreign Investor's Equity referenced in Schedule II of the FDI Policy and the FDI Regulations shall be eighty percent (80%).

5.4 A CRA shall be capitalized and possess financial resources as follows:

5.4.1 A CRA shall have the financial capability to invest in the necessary staff, equipment and technology to pursue its operations and produce credible and timely ratings.

5.4.2 The initial authorized share capital of a CRA shall not be less than Nu. 30,000,000 of which at least Nu. 5,000,000 shall be paid up capital. Paid up capital shall be increased to Nu. 30,000,000 within five years from the time a CRA has been issued its license to operate.

5.4.3 A CRA shall have adequate financial resources to maintain its financial independence from encroachments of political interventions or economic pressures.

5.4.4 The directors, management and staff of a CRA shall:

5.4.4.1 Possess a high degree of competence with relevant training and experience in financial analysis and the credit rating business and related fields.

5.4.4.2 Be persons of good moral character and of good repute.

5.4.4.3 Not have been convicted of any crime involving moral turpitude or violation of the Companies Act 2000 or the Financial Services Act of Bhutan 2011, including any amendments thereto.

5.5 Rating Capabilities

5.5.1 A CRA shall engage a sufficient number of rating staff adequately trained and experienced to competently perform the CRA's rating functions.

5.5.2 A CRA shall undertake to continuously upgrade the knowledge, skills and judgment of its rating staff.

5.5.3 A CRA must follow established rating methodologies, based both on quantitative and qualitative approaches, and shall subject these to regular review and updating.

5.5.4 A CRA shall establish rating scales that are publicly disclosed and adequately explained.

5.6 Rating Committee

5.6.1 A CRA shall have a Rating Committee responsible for assigning ratings that shall be composed of persons who are qualified by education and relevant experience in the evaluation of credit risk and business fundamentals.

5.6.2 A CRA shall adopt systems and procedures to assure consistency in the application of its rating methodologies.

5.7 Code of Conduct

5.7.1 A CRA shall adopt a Code of Conduct that shall be uniformly and consistently observed and enforced by all officers and staff.

5.7.2 A CRA's Code of Conduct shall be designed to achieve the objectives outlined in the IOSCO CRA Principles and shall conform, in principle, with the IOSCO Code of Conduct, as reproduced in Annexure IV.

5.7.3 A CRA shall disclose its Code of Conduct to the public and describe how its provisions fully implement the provisions of the IOSCO CRA Principles and the IOSCO Code of Conduct.

5.7.4 If a CRA's Code of Conduct deviates in any material way from the IOSCO provisions referenced in 5.7.2 above, said CRA shall explain the reasons for such deviations, and the manner in which it achieves the objectives of the referenced IOSCO provisions despite such deviations.

6. Best Practices

A CRA shall observe these mandatory best practices:

6.1 Objectivity and Fairness - A CRA shall assure that it obtains all the necessary information to make a thorough analysis and fair judgment, and shall apply its established rating methodologies consistently.

6.2 Independence and Avoidance of Conflicts of Interest- A CRA shall:

6.2.1 Adopt written internal procedures and mechanisms to identify, and eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the opinions and analyses

the CRA makes or the judgment and analyses of the individuals the CRA employs who have an influence on ratings decisions.

- 6.2.2 Publicly disclose, and simultaneously report to the Authority, any conflicts of interest inherent in its business activities.
- 6.2.3 Ensure that there are no conflicts of interest involving the Rating Committee, the rating staff and whoever might be directly involved in the rating process.
- 6.2.4 Ensure that the owners and Board of Directors of the CRA do not intervene in any manner, either directly or indirectly, in the rating process;
- 6.2.5 Ensure that the rated entity (the ratee) does not unduly influence the rating process;
- 6.2.6 Ensure that its rating staff do not participate in rating any entities or instruments in which they have a direct or indirect beneficial ownership interest, except as may be permitted under the CRA's Code of Conduct.
- 6.2.7 Ensure that members of its Rating Committee and rating staff shall be completely independent and free of any undue influence from shareholders.

6.3 Transparency and Disclosures

- 6.3.1 A CRA's basic rating methodologies, rating scales, and the meaning of ratings and associated symbols, shall be defined and published and made readily available to the public.
- 6.3.2 A CRA shall make publicly available all assigned ratings, along with the principal reasons for arriving at such ratings. Assigned ratings, including any changes and the reasons therefor, shall be publicized immediately.
- 6.3.3 A CRA's Rating Reports shall be made available in a timely manner to all domestic and foreign investors or would-be investors, through publication on the CRA's website and by any other means required by the Authority.
- 6.3.4 The CRA shall publicly disclose, and simultaneously report to the Authority, any material changes in its management, organization, rating staff, rating methodologies and practices, which may affect its ability or competence to provide reliable ratings.

6.4 Monitoring of Ratings

6.4.1 A CRA shall adopt a system of monitoring ratees and rated instruments and shall update its initial ratings regularly during the period in which such ratings remain valid, and such updates shall be publicized in a timely manner.

6.4.2 A CRA shall publicize and post on its website its definition of default for debt issues and/or creditors for which it assigns a rating.

6.4.3 A CRA shall track default rates on the entities and instruments it has rated, and these rates shall be announced not less frequently than annually.

6.4.4 Rating transitions shall be recorded and announced not less frequently than annually.

6.5 Rating and Other Reports - Simultaneously with its public announcement of a rating, a CRA:

6.5.1 Shall submit to the Authority a copy of the Rating Report that assigned such rating,

6.5.2 Shall submit to the Authority a copy of any other report or analysis for which it has received compensation from the ratee.

6.6 Rating and Other Fees - A CRA shall publish indicative rating fees as a guide for prospective ratees concerning the costs of acquiring a rating.

6.7 Unsolicited Ratings - A CRA shall not undertake any unsolicited credit ratings or IPO gradings.

6.8 Stipulated Ratings - The Authority shall not stipulate that investors purchase securities according to certain rating standards.

6.9 Board of Directors

6.9.1 The Board of Directors shall meet at least once every three months to assure close supervision of CRA management;

6.9.2 At least one member of the Board of Directors shall be an Independent Director;

6.9.3 With the exception of the Chief Executive Officer - who may be a member of both the Board of Directors and the Rating Committee - no

member of a CRA's Board of Directors may be a member of its Rating Committee.

6.10 Confidentiality of Client Information – To assure that there is full access by the CRA to business information essential to a thorough analysis:

6.10.1 All non-public information submitted to a CRA in connection with a rating or other assignment shall be treated as strictly confidential;

6.10.2 Release of such confidential information shall be considered a reason for termination of employment by the CRA.

6.10.3 Members of the Board of Directors who are not members of the Rating Committee shall not have access to the confidential information submitted by ratees or other clients.

6.10.4 The Authority shall honor this confidentiality, and exceptions shall be made only upon lawful order of a court of law or an authorized government agency for a lawful reason.

6.11 Confidentiality of Rating Committee Proceedings - To assure the utmost independence and objectivity in rating decision-making:

6.11.1 The deliberations of the Rating Committee shall be private and confidential.

6.11.2 Rating Committee members shall themselves observe this confidentiality requirement.

6.11.3 Members of the Board of Directors who are not members of the Rating Committee shall not have access to the deliberations of the Rating Committee.

6.11.4 The Authority shall honor and uphold this confidentiality.

6.12 Annual Report - A CRA shall submit to the Authority each year, within 3 months from the end of its fiscal year, an Annual Report of its operations with the following minimum disclosures:

6.12.1 A list of entities or issues rated and the ratings assigned.

6.12.2 Information on all outstanding active ratings and any rating changes.

6.12.3 Descriptions of all other professional activities engaged in by it during its fiscal year.

6.12.4 Audited financial statements prepared pursuant to Sections 95 and 96 of the Financial Services Act of Bhutan 2011.

6.13 ADB Handbook of Best Practices - The principles set forth in the Handbook on International Best Practices in Credit Rating published by the Asian Development Bank in December 2008 shall be observed to the extent applicable in Bhutan.

7. Penalties and Sanctions

7.1 Penalties and/or sanctions imposed on a CRA for violation of these regulations and/or provisions of the Financial Service Act of Bhutan 2011 (FSA) shall be in accordance with the FSA and shall be determined, from time to time, by the Authority.

7.2 The Authority may revoke, suspend or restrict a CRA's license or censure it pursuant to Sections 150-152 of the FSA according to the circumstances and gravity of the case;

7.3 A CRA shall be granted due process and ample opportunity to defend itself in accordance with Chapter 10 of the FSA.

8. Schedule IX of the Companies Act Supplemented

8.1 Pursuant to the powers conferred by Section 204 of the FSA, Schedule IX, Part I, Section I of the Companies Act of the Kingdom of Bhutan 2000 shall hereby be supplemented with the addition of the following items:

8.1.1 “(j) The credit rating or IPO grade assigned by a credit rating agency.”; and

8.1.2 “(k) Where applicable, a clear and conspicuous disclaimer in 14-point boldface type or 14-point uppercase letters that makes the following or a substantially similar statement: *‘Credit ratings and IPO grading should not be used as a substitute for an investor’s own due diligence and evaluation of the investment potential of the securities offered in this prospectus. They should only be used as a supplement to the information generally available about these securities (i.e. in this prospectus and, more generally, in the public domain), and should be considered as one among the many factors to be assessed in the evaluation of the investment potential of the securities offered herein.’*”

9. Submissions

All enquiries, applications and information pursuant to these regulations shall be addressed to the following:

Honorable Governor
Royal Monetary Authority of Bhutan
P.O. Box 154
Chhophel Lam, Kawajangsa
Thimphu, Bhutan
Telephone +975-2-23111/217
Fax: +975-2-322847
Email: frsd.rma@rma.org.bt

ANNEXURE I

Date:

The Hon'ble Governor
Royal Monetary Authority of Bhutan
Thimphu, Bhutan

Sub: Application to establish a Credit Rating Agency in Bhutan

Hon'ble Dasho,

I/We would like to request a license to establish a Credit Rating Agency in Bhutan under Chapter 19 of the Financial Services Act of Bhutan, 2011.

I/We confirm and declare that all applications made by us/me are in full compliance with the Credit Rating Agency Regulations issued by the Authority. I/We further confirm and declare that I/we are satisfied to the best of our knowledge, information and belief that there is no information or statement nor is there any omission which would make our application false or misleading.

I/We undertake to provide to Authority such information and documents as the Authority may reasonably require in relation to the application. This application is made by the undersigned authorized person of (_____) pursuant to the authority granted to by written resolution of promoters (Board) passed on (_____). For, and on behalf of, the applicant,

Yours faithfully,

Name:

Address:

Tel No:

Fax No: Email:

Encl: Documents pertaining to the application including the resolution signed by all of the Promoters (Board Members).

ANNEXURE II

LICENSING APPLICATION FORM

(Please ensure that this form is properly completed. In case of any clarifications, please feel free to call or visit the Financial Regulation and Supervision Department of the Royal Monetary Authority).

In accordance to the Financial Services Act of Bhutan, 2011 an application form must be submitted by the applicant to the Authority for a license to conduct a Credit Rating Agency business in Bhutan.

NAME OF THE APPLICANT: _____

ADDRESS: _____

CONTACT ADDRESS: _____

TELEPHONE NO: _____

FAX NO: _____

E-mail : _____

1. Please indicate which of the following activities the applicant intends to provide, or seeks, to be licensed:

- a) Issuance of Credit Ratings ()
- b) Ranking or scoring small and medium-sized enterprises ()
- c) Analyzing Initial Public Offerings ()
- d) Rating or ranking listed companies listed on the Royal Securities Exchange of Bhutan as to corporate governance ()
- e) Grading the performance of investment funds ()
- f) Conducting Compliance Audits of Managers of Investment Funds ()

g) Other similar activities ()

2. Instructions for completing this form

- Before completing this application form, Applicants should carefully study and understand the Credit Rating Agency Regulations 2014.
- Applicants shall submit to the Authority a duly completed application form together with all appropriate supporting documents.
- An Application for a license will be considered only if it is complete in all respects.
- Applicants should sign the application form.
- Information which must be supplied in greater detail may be given on separate sheets attached to the application form.

3. Particulars of the Applicant:

a) Name of the Applicant :

b) Address - Principal Place of business / Registered Office.

c) Post Box Number: _____ Telephone No: _____

d) E-mail: _____ Fax No: _____

e) Address for Correspondence:

f) Post Box Number: _____ Telephone No: _____

g) E-mail: _____ Fax No: _____

h) Name of Chief Executive

i) Names of Key Employees

4. Applicants licensed as CRAs in another jurisdiction who are applying to establish an office in Bhutan shall also submit:

- a) A duly notarized copy of your license to operate as a CRA in such jurisdiction
- b) A reference to a Memorandum of Understanding (MOU) with the Authority, as acknowledged in a Registry of MOU's maintained and periodically updated by the Authority

5. Capital Structure of the proposed Company:

- a) Amount of Authorized Capital : _
- b) Amount of Issued Capital : _____
- c) Amount of Paid-up Capital : _____

6. Shareholding pattern

- a) List of major shareholders (holding 10% and above of applicant directly or along with others)
- b) Shareholding as on: _____
- c) Name of shareholder_____
- d) No. of Shares held as a % of total paid up capital of the company _____
- e) Three years audited accounts of the company, if applicable.

7. Organizational Structure

- a) Status of the Applicant (e.g. limited company-Private/Public): _____
- b) Date and Place of Incorporation:

Day Month Year Place

Please attach a copy of draft Article of Incorporation (final Articles of Incorporation to be submitted upon incorporation of the Company with the Registrar of Companies).

8. Business Information

- a) Submit a business plan/feasibility report for a period of 3 years. The business plan shall include macroeconomic background; financial system & structure; business projection; financial analysis and its justification; investment plans and projections; SWOT analysis; survival; and growth and technical competence. Separately enclose an Organization Chart showing functional responsibilities.
- b) Complete particulars relating to the significant owners, directors, principal officers of the company to be completed in the prescribed format Annexure III.
- c) Provide any other information considered relevant to the nature of services rendered by the applicant.
- d) Provide details of infrastructure such as office space, equipment and manpower available with the applicant after the issuance of "In-Principle Approval".
- e) The person nominated as the applicant's Chief Executive Officer and all directors and significant owners of the applicant company should each submit a Declaration in the form below that they were not associated with a company as a director or officer whose registration was suspended or cancelled or refused by the Authority (or, in the case of foreign Applicants to establish an Office in Bhutan, by an Authority in the jurisdiction in which they have been licensed).

The following declarations should be submitted separately by the Applicant's Chief Executive Officer and each its Directors and significant owners.

DECLARATION

I, the undersigned, solemnly declare that the above information given in this application form and other documents submitted on behalf of the proposed Credit Rating Agency are true, complete and correct to the best of my knowledge and belief.

Should the Authority discover any inconsistencies in the information provided, I hereby agree to fully abide by the penalties as specified under Section 138 of the Financial Services Act of Bhutan 2011. Further, I pledge that if granted a license to conduct the business, the proposed company will not violate any laws and regulation of the Authority.

Name/Position:

Citizenship ID No:

(Please attest copy)

Signature (Affix Legal Stamp):

Date:

Witness:

Name:

Citizenship ID No: (Please attest copy)

Occupation:

Non –Bhutanese: Passport No.

Country of Issuance:

Date of Issuance:

Date of Expiry:

Signature:

ANNEXURE III

BIOGRAPHICAL REPORT

To be completed by all significant owners (owning equal to or more than 10 percent), Directors and Chief Executive Officer.

1. Personal Details.
 - a) Name
 - b) Date of Birth
 - c) Nationality
 - d) Citizenship ID No.
2. Contact Information
 - a) Telephone No
 - b) Mobile No.
 - c) Fax No.
 - d) E-mail
3. Present Position
 - a) Name and Address of the Firm ____
 - b) Nature of Business _____
 - c) Telephone No _____
4. Family History/Dependents
 - a) Relationship Name CID No. Date of Birth Occupation

b) Email Address

c) Mobile No.

d) Father

e) Mother

f) Spouse

g) Dependents

5. Education

Name & Address of University:

Years of Attendance:

Major Area of Study:

Degree/Certificate Granted

Date Awarded

6. Employment Record (Pertaining to previous 5 years).

Use additional sheets, if necessary, and account for all gaps in employment.

Position/Department

Main responsibilities Organization Country Duration

7. Do you have a license to practice any profession? Yes () No ()

If yes, please give details.

a) Nature of License

b) Date of Issue

c) License/Registration No.

d) Licensing Agency and Address

8. (a) If self-employed, describe each enterprise, including the name, address, license number, your percentage of ownership and the type of business which you own or control. (Control means ownership of 10% or more of the stock or ability to effectively control the management of the corporation or other entity).

(b) List names, addresses and percentage of control and/or ownership of other incorporators, partners, directors, or officers of the entity or corporation referred to above.

9. Are you employed in any professional capacity, or do you perform any services for or have any business connections with any institution which is subject to the supervision of the Royal Monetary Authority of Bhutan, or any other authority of the Royal Government of Bhutan? If "Yes", indicate the name of the institution, address and nature of your work.

Yes () No ()

10. Have you had, or do you now have, any financial interest, direct or indirect, in any financial institution in Bhutan. If "Yes", give the name of the institution, address and nature of the financial interest.

Yes () No ()

11. Please tick whichever is relevant for the following questions below.

Do you have more than 3 years' experience in credit rating/ financial management/risk management/finance/ accounting/securities, business/information technology?

No () Yes () N/A ()

Were you or company you worked/owned declared insolvent and adjudicated bankrupt?

Yes () No ()

Were you or a company you worked/owned convicted by a court in any criminal offense or has been involved in any fraud/forgery, financial crime or other illegal activities?

Yes () No ()

Are any of your loan accounts with financial institutions classified as non-performing at any point of time (loan default by 90 days)?

Yes () No () N/A ()

12. Answer "Yes" or "No" to any of the questions below if they apply to you as an individual, or a partner, director or officer of a corporation except for minor traffic violations.

a) Are any arrests, indictments, criminal information or other criminal proceedings now pending against you?

Yes () No ()

b) Were you ever convicted for any violations of the law?

Yes () No ()

c) Have you or has any partnership of which you were a CEO or a major owner (more than or equal to 10% of the capital of the company) ever been liquidated or judged bankrupt?

Yes () No ()

d) Has any business of which you were a director, officer, partner or major shareholder (10% or more of the voting shares) defaulted on his/her loan repayment?

Yes () No ()

e) Has any enterprise in which you were a partner, director or officer been the subject of criminal indictment or other criminal proceedings?

Yes () No ()

13. Income tax clearance: Fiscal Year

(Attach tax clearance certificate)

DECLARATION

I certify that I am aware that it is an offence under Section 138 of the Financial Services Act of Bhutan 2011 to provide the Authority any information which is false or misleading in a material particular.

I certify that the information given in the form above and accompanying documents is complete and accurate to the best of my knowledge, information and belief and that there are no other facts relevant to this application of which the Authority should be aware.

I also undertake that as long as I continue to be an Applicant/Chief Executive Officer /Director, Significant Owner I will notify the Director of the Financial Regulation and Supervision Department of the Authority of any material changes to, or affecting the completeness or accuracy of, the information given above as soon as possible, but in any event no later than 10 days from the day the changes come to my attention.

Further, I pledge that as long as I continue to be an Applicant/Principal Officer/ Director/ Significant Owner of the company, I will not violate any laws and regulations of the Authority.

Name:

Position:

Citizenship ID No:

Signature (Affix Legal Stamp):

Date:

Witness:

Name:

Citizen ID No:

Non –Bhutanese: Passport No.

Country of Issuance:

Date of Issuance:

Date of Expiry:

ANNEXURE IV

IOSCO CODE OF CONDUCT FUNDAMENTALS FOR CREDIT RATING AGENCIES

To help achieve the objectives outlined in IOSCO's CRA Principles (which should be read in conjunction with this Code), CRAs should adopt, publish and adhere to a Code of Conduct containing the following measures:

1. QUALITY AND INTEGRITY OF THE RATING PROCESS

A. Quality of the Rating Process

- 1.1. The CRA should adopt, implement and enforce written procedures to ensure that the opinions it disseminates are based on a thorough analysis of all information known to the CRA that is relevant to its analysis according to the CRA's published rating methodology.
- 1.2. The CRA should use rating methodologies that are rigorous, systematic, and, where possible, result in ratings that can be subjected to some form of objective validation based on historical experience.
- 1.3. In assessing an issuer's creditworthiness, analysts involved in the preparation or review of any rating action should use methodologies established by the CRA. Analysts should apply a given methodology in a consistent manner, as determined by the CRA.
- 1.4. Credit ratings should be assigned by the CRA and not by any individual analyst employed by the CRA; ratings should reflect all information known, and believed to be relevant, to the CRA, consistent with its published methodology; and the CRA should use people who, individually or collectively have appropriate knowledge and experience in developing a rating opinion for the type of credit being applied.
- 1.5. The CRA should maintain internal records to support its credit opinions for a reasonable period of time or in accordance with applicable law.
- 1.6. The CRA and its analysts should take steps to avoid issuing any credit analyses or reports that contain misrepresentations or are otherwise misleading as to the general creditworthiness of an issuer or obligation.

1.7. The CRA should ensure that it has and devotes sufficient resources to carry out high-quality credit assessments of all obligations and issuers it rates. When deciding whether to rate or continue rating an obligation or issuer, it should assess whether it is able to devote sufficient personnel with sufficient skill sets to make a proper rating assessment, and whether its personnel likely will have access to sufficient information needed in order make such an assessment.

1.8. The CRA should structure its rating teams to promote continuity and avoid bias in the rating process.

B. Monitoring and Updating

1.9. Except for ratings that clearly indicate they do not entail ongoing surveillance, once a rating is published the CRA should monitor on an ongoing basis and update the rating by:

- Regularly reviewing the issuer's creditworthiness;
- Initiating a review of the status of the rating upon becoming aware of any information that might reasonably be expected to result in a rating action (including termination of a rating), consistent with the applicable rating methodology; and,
- Updating on a timely basis the rating, as appropriate, based on the results of such review.

1.10. Where a CRA makes its ratings available to the public, the CRA should publicly announce if it discontinues rating an issuer or obligation. Where a CRA's ratings are provided only to its subscribers, the CRA should announce to its subscribers if it discontinues rating an issuer or obligation. In both cases, continuing publications by the CRA of the discontinued rating should indicate the date the rating was last updated and the fact that the rating is no longer being updated.

C. Integrity of the Rating Process

1.11. The CRA and its employees should comply with all applicable laws and regulations governing its activities in each jurisdiction in which it operates.

1.12. The CRA and its employees should deal fairly and honestly with issuers, investors, other market participants, and the public.

- 1.13. The CRA's analysts should be held to high standards of integrity, and the CRA should not employ individuals with demonstrably compromised integrity.
- 1.14. The CRA and its employees should not, either implicitly or explicitly, give any assurance or guarantee of a particular rating prior to a rating assessment. This does not preclude a CRA from developing prospective assessments used in structured finance and similar transactions.
- 1.15. The CRA should institute policies and procedures that clearly specify a person responsible for the CRA's and the CRA's employees' compliance with the provisions of the CRA's code of conduct and with applicable laws and regulations. This person's reporting lines and compensation should be independent of the CRA's rating operations.
- 1.16. Upon becoming aware that another employee or entity under common control with the CRA is or has engaged in conduct that is illegal, unethical or contrary to the CRA's code of conduct, a CRA employee should report such information immediately to the individual in charge of compliance or an officer of the CRA, as appropriate, so proper action may be taken. A CRA's employees are not necessarily expected to be experts in the law. Nonetheless, its employees are expected to report the activities that a reasonable person would question. Any CRA officer who receives such a report from a CRA employee is obligated to take appropriate action, as determined by the laws and regulations of the jurisdiction and the rules and guidelines set forth by the CRA. CRA management should prohibit retaliation by other CRA staff or by the CRA itself against any employees who, in good faith, make such reports.

2. CRA INDEPENDENCE AND AVOIDANCE OF CONFLICTS OF INTEREST

A. General

- 2.1. The CRA should not forbear or refrain from taking a rating action based on the potential effect (economic, political, or otherwise) of the action on the CRA, an issuer, an investor, or other market participant.
- 2.2. The CRA and its analysts should use care and professional judgment to maintain both the substance and appearance of independence and objectivity.
- 2.3. The determination of a credit rating should be influenced only by factors relevant to the credit assessment.

- 2.4. The credit rating a CRA assigns to an issuer or security should not be affected by the existence of or potential for a business relationship between the CRA (or its affiliates) and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship.
- 2.5. The CRA should separate, operationally and legally, its credit rating business and CRA analysts from any other businesses of the CRA, including consulting businesses that may present a conflict of interest. The CRA should ensure that ancillary business operations which do not necessarily present conflicts of interest with the CRA's rating business have in place procedures and mechanisms designed to minimize the likelihood that conflicts of interest will arise.

B. CRA Procedures and Policies

- 2.6. The CRA should adopt written internal procedures and mechanisms to (1) identify, and (2) eliminate, or manage and disclose, as appropriate, any actual or potential conflicts of interest that may influence the opinions and analyses the CRA makes or the judgment and analyses of the individuals the CRA employs who have an influence on ratings decisions. The CRA's code of conduct should also state that the CRA will disclose such conflict avoidance and management measures.
- 2.7. The CRA's disclosures of actual and potential conflicts of interest should be complete, timely, clear, concise, specific and prominent.
- 2.8. The CRA should disclose the general nature of its compensation arrangements with rated entities. Where a CRA receives from a rated entity compensation unrelated to its ratings service, such as compensation for consulting services, the CRA should disclose the proportion such non-rating fees constitute against the fees the CRA receives from the entity for ratings services.
- 2.9. The CRA and its employees should not engage in any securities or derivatives trading presenting conflicts of interest with the CRA's rating activities.
- 2.10. In instances where rated entities (e.g., governments) have, or are simultaneously pursuing, oversight functions related to the CRA, the CRA should use different employees to conduct its rating actions than those employees involved in its oversight issues.

C. CRA Analyst and Employee Independence

- 2.11. Reporting lines for CRA employees and their compensation arrangements should be structured to eliminate or effectively manage actual and potential conflicts of interest. The CRA's code of conduct should also state that a CRA analyst will not be compensated or evaluated on the basis of the amount of revenue that the CRA derives from issuers that the analyst rates or with which the analyst regularly interacts.
- 2.12. The CRA should not have employees who are directly involved in the rating process initiate, or participate in, discussions regarding fees or payments with any entity they rate.
- 2.13. No CRA employee should participate in or otherwise influence the determination of the CRA's rating of any particular entity or obligation if the employee:
- Owns securities or derivatives of the rated entity, other than holdings in diversified collective investment schemes;
 - Owns securities or derivatives of any entity related to a rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest, other than holdings in diversified collective investment schemes;
 - Has had a recent employment or other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest;
 - Has an immediate relation (i.e., a spouse, partner, parent, child, or sibling) who currently works for the rated entity; or
 - Has, or had, any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.
- 2.14. The CRA's analysts and anyone involved in the rating process (or their spouse, partner or minor children) should not buy or sell or engage in any transaction in any security or derivative based on a security issued, guaranteed, or otherwise supported by any entity within such analyst's area of primary analytical responsibility, other than holdings in diversified collective investment schemes.
- 2.15. CRA employees should be prohibited from soliciting money, gifts or favors from anyone with whom the CRA does business and should be prohibited from

accepting gifts offered in the form of cash or any gifts exceeding a minimal monetary value.

- 2.16. Any CRA analyst who becomes involved in any personal relationship that creates the potential for any real or apparent conflict of interest (including, for example, any personal relationship with an employee of a rated entity or agent of such entity within his or her area of analytic responsibility), should be required to disclose such relationship to the appropriate manager or officer of the CRA, as determined by the CRA's compliance policies.

3. CRA RESPONSIBILITIES TO THE INVESTING PUBLIC AND ISSUERS

A. Transparency and Timeliness of Ratings Disclosure

- 3.1. The CRA should distribute in a timely manner its ratings decisions regarding the entities and securities it rates.
- 3.2. The CRA should publicly disclose its policies for distributing ratings, reports and updates.
- 3.3. The CRA should indicate with each of its ratings when the rating was last updated.
- 3.4. Except for "private ratings" provided only to the issuer, the CRA should disclose to the public, on a non-selective basis and free of charge, any rating regarding publicly issued securities, or public issuers themselves, as well as any subsequent decisions to discontinue such a rating, if the rating action is based in whole or in part on material non-public information.
- 3.5. The CRA should publish sufficient information about its procedures, methodologies and assumptions (including financial statement adjustments that deviate materially from those contained in the issuer's published financial statements) so that outside parties can understand how a rating was arrived at by the CRA. This information will include (but not be limited to) the meaning of each rating category and the definition of default or recovery, and the time horizon the CRA used when making a rating decision.
- 3.6. When issuing or revising a rating, the CRA should explain in its press releases and reports the key elements underlying the rating opinion.
- 3.7. Where feasible and appropriate, prior to issuing or revising a rating, the CRA should inform the issuer of the critical information and principal considerations upon which

a rating will be based and afford the issuer an opportunity to clarify any likely factual misperceptions or other matters that the CRA would wish to be made aware of in order to produce an accurate rating. The CRA will duly evaluate the response. Where in particular circumstances the CRA has not informed the issuer prior to issuing or revising a rating, the CRA should inform the issuer as soon as practical thereafter and, generally, should explain the reason for the delay.

- 3.8. In order to promote transparency and to enable the market to best judge the performance of the ratings, the CRA, where possible, should publish sufficient information about the historical default rates of CRA rating categories and whether the default rates of these categories have changed over time, so that interested parties can understand the historical performance of each category and if and how rating categories have changed, and be able to draw quality comparisons among ratings given by different CRAs. If the nature of the rating or other circumstances make a historical default rate inappropriate, statistically invalid, or otherwise likely to mislead the users of the rating, the CRA should explain this.
- 3.9. For each rating, the CRA should disclose whether the issuer participated in the rating process. Each rating not initiated at the request of the issuer should be identified as such. The CRA should also disclose its policies and procedures regarding unsolicited ratings.
- 3.10. Because users of credit ratings rely on an existing awareness of CRA methodologies, practices, procedures and processes, the CRA should fully and publicly disclose any material modification to its methodologies and significant practices, procedures, and processes. Where feasible and appropriate, disclosure of such material modifications should be made prior to their going into effect. The CRA should carefully consider the various uses of credit ratings before modifying its methodologies, practices, procedures and processes.

B. The Treatment of Confidential Information

- 3.11. The CRA should adopt procedures and mechanisms to protect the confidential nature of information shared with them by issuers under the terms of a confidentiality agreement or otherwise under a mutual understanding that the information is shared confidentially. Unless otherwise permitted by the confidentiality agreement and consistent with applicable laws or regulations, the CRA and its employees should not disclose confidential information in press releases, through research conferences, to future employers, or in conversations with investors, other issuers, other persons, or otherwise.

- 3.12. The CRA should use confidential information only for purposes related to its rating activities or otherwise in accordance with any confidentiality agreements with the issuer.
- 3.13. CRA employees should take all reasonable measures to protect all property and records belonging to or in possession of the CRA from fraud, theft or misuse.
- 3.14. CRA employees should be prohibited from engaging in transactions in securities when they possess confidential information concerning the issuer of such security.
- 3.15. In preservation of confidential information, CRA employees should familiarize themselves with the internal securities trading policies maintained by their employer, and periodically certify their compliance as required by such policies.
- 3.16. CRA employees should not selectively disclose any non-public information about rating opinions or possible future rating actions of the CRA, except to the issuer or its designated agents.
- 3.17. CRA employees should not share confidential information entrusted to the CRA with employees of any affiliated entities that are not CRAs. CRA employees should not share confidential information within the CRA except on an “as needed” basis.
- 3.18. CRA employees should not use or share confidential information for the purpose of trading securities, or for any other purpose except the conduct of the CRA's business.

4. DISCLOSURE OF THE CODE OF CONDUCT AND COMMUNICATION WITH MARKET PARTICIPANTS

- 4.1. The CRA should disclose to the public its code of conduct and describe how the provisions of its code of conduct fully implement the provisions of the IOSCO Principles Regarding the Activities of Credit Rating Agencies and the IOSCO Code of Conduct Fundamentals for Credit Rating Agencies. If a CRA's code of conduct deviates from the IOSCO provisions, the CRA should explain where and why these deviations exist, and how any deviations nonetheless achieve the objectives contained in the IOSCO provisions. The CRA should also describe generally how it intends to enforce its code of conduct and should disclose on a timely basis any changes to its code of conduct or how it is implemented and enforced.

4.2. The CRA should establish a function within its organization charged with communicating with market participants and the public about any questions, concerns or complaints that the CRA may receive. The objective of this function should be to help ensure that the CRA's officers and management are informed of those issues that the CRA's officers and management would want to be made aware of when setting the organization's policies.