

Report for the month of November 2011

At the sidelines of the SAARC Summit 2011 held at Addu, Republic of Maldives, CARE Ratings Maldives (CARE) made a presentation on the topic “*Credit Ratings: Scenario and Prospects for SAARC Nations*” on November 10, 2011 at Herathera. Against the backdrop of the sovereign debt crisis, it was pointed out that there is a requirement to revisit the approach to country credit ratings. Speaking on the occasion, Mr D R Dogra, MD & CEO, CARE Ratings highlighted that the developing economies have fared relatively more resolutely during the current crises that has enveloped a large part of the developed world. Given the state of development in these sets of countries, one cannot have a single uniform yardstick for judging all the countries. A differential approach has to be taken when evaluating parameters like fiscal deficit or government debt.

It was clear how the present system of ratings was not able to capture the risk-to-default trend in certain countries which the Credit Default Swaps spreads (CDS spreads) had indicated. It was emphasized that a country rating helps countries not only to borrow money in international markets but also attract foreign investment. Therefore, credit rating is very important for any country. Presently, only half of the SAARC nations have a global credit rating.

CARE Rating Maldives also participated in the workshop on “*Domestic Credit Rating Agency (DCRA) System in Maldives*” jointly conducted by Capital Market Development Authority (CMDA) and Asian Development Bank (ADB) on November 23, 2011 at Traders Hotels, Maldives. The key participants were from Ministry of Economic Development, Maldives Monetary Authority and representatives from various corporates. Mr. Jiro Tsunoda, Principal Portfolio Management Specialist, ADB, made presentation on “*Emerging Requirements and Expected roles of DCRA’s, SME financing and PPP financing in South Asia*”. Mr. Mehul Pandya, Senior Vice President, CARE Ratings was the Resource Person for ADB and made a presentation on the developments and scope of expanding the usage of credit rating information in Maldives. The presentations were followed by a Panel discussion on “*How credit rating information can be used more effectively in Maldives*”. Mr. Vidhyasagar L, Head-Maldives Operations represented CARE Ratings on the panel discussion moderated by the Deputy Minister from Ministry of Economic Development.

In continuation with its commitment towards developing efficient financial system in Maldives, CARE Ratings Maldives proposed the rating methodology for debt instruments/facilities issued by Islamic banks as well as Sukuk instruments issued by various originators for Maldives based companies. It involves a detailed review of the key quantitative and qualitative measures of financial performance and stability. The rating framework would examine various dimensions namely Capital Adequacy, Asset Quality, Earnings performance, Liquidity, Resources, Sensitivity to market risks, Management quality and fiduciary risks.

CARE's rating methodology on sukuks differentiates primarily between unsecured asset-based sukuks and secured asset-backed sukuks. CARE's methodology for sukuk rating assesses the various risks sukuk investors are exposed to, viz. rate of return risks, credit/counterparty risks, market risks and operational risks.