Credit rating market in Iran

Development of credit rating market in Iran started approximately during the same period when the European Union started re-thinking the regulation of its rating market. The Securities and Exchange Organization of Iran (SEO), which is responsible for administration and supervisory duties, is the sole regulatory entity for the regulation and development of the capital market in Iran, including the new credit rating market.

Around 2012, SEO had numerous consultations regarding establishing a local regulatory regime for credit rating agencies (CRAs), in particular signing a memorandum with a CRA from Pakistan on joint development of new regulatory principles. At the same time, the European Securities and Markets Authority (ESMA), was already established and became the primary CRA regulator in the EU with the CRA 2 regulation set and the CRA 3 coming in 2013. SEO was working on the new regulation for quite some time and arrived to a highly sophisticated regulation combining basic principles of already established EU regulation plus some elements which would be appropriate for the local environment from a regulatory perspective. The regulation ended up being very solid and detailed, however, in some cases more stringent and complicated than the best practices on which it was based. For example, template articles of association are recommended by SEO and deviations from them are not welcome, while, for instance, in the EU CRAs have relative freedom of drafting such articles as long as they comply with the local regulations and ESMA regulations. Furthermore, in the regulation from SEO there is a minimum level of required capital and the total amount of capital is also assessed as one of the application factors (more chances of getting licence with higher capital).

According to the new CRA regulation from SEO the rating agencies applying for registration need to have a foreign partner, i.e. a CRA registered in another country, which could bring practical expertise and international standards. Thus, the real interest in CRA applications emerged once the UN sanctions were lifted on 16 January 2016. During 2016-2018 many companies, associations and market experts from Iran were looking for foreign partners and approaching CRAs from various jurisdictions. Further sanctions imposed on Iran in 2018 cooled down the willingness of foreign CRAs to participate as partners. Nonetheless, CRAs from countries who have long-lasting relationships with Iran remained willing to reach the final stage.

The process of CRA registration established by SEO consist of two main stages: obtaining an establishment license (the CRA can establish a legal entity, open an office and start preparation for the final stage of registration) and obtaining the business license. SEO decides on the applications for both stages using a scoring system with some objective parameters and some rather subjective allowing it to control the overall number of market players. The first CRA to be registered by SEO and obtaining a business license was the Borhan Credit Rating (foreign CRA partner – Pakistan based JCR-VIS) agency in August 2018. Then, shortly after, two additional CRAs obtained a business licence: Pars Kian Credit Rating (foreign CRA partner – Pakistan based PACRA) and Paya Credit Rating (foreign CRA partner – Turkey based JCR Eurasia Rating). According to local market experts, three more CRAs obtained the establishment licence and only one of them is still pursuing the business licence.

Now that the CRA market in Iran is established, it is time for it to grow. However, this growth is still not booming. Borhan has two public ratings, Pars Kian and Paya – one rating each. Among the problems faced by the new CRA market are: absence of local regulatory requirements to have a credit rating and limited possibilities for international business requiring ratings due to sanctions. The first problem also has a negative impact on smaller EU CRAs; however, in the case of Iran, local regulators are planning to facilitate the local market development by introducing a number of supportive initiatives, such as:

- If a Sukuk obligation is able to obtain a high credit rating, it does not need a guarantor (otherwise a guarantor is obligatory) – SEO initiative;
- A Rating report or scoring report should be necessary for providing financial facilities – Anti-corruption Council initiative;
- New Central Bank regulation shall also implement credit ratings in its framework.

Iranian rated entities are also rather reluctant to publish ratings which they do not consider as “good enough” and this limits the growth of the available rating universe. Such cases are of course overall common, but in most of the regulatory regimes, a “bad rating” is perceived better than the absence of rating.

If all promised regulatory initiatives would be implemented, the established Iran CRA market has a bright future and good growth perspectives. Clear benefits of getting a rating should foster the demand for credit rating services and significant regulatory barriers will limit the entry of new market players.

For European rating agencies this market is challenging in terms of domestic rating scale entrance (SEO registration required), however, we are ready to assign ratings to Iranian rated entities according to the international rating scale and provide additional research services. On 17 December 2018 in Beijing, a cooperation memorandum was signed by four credit rating agencies representing the Silk Road countries: the largest Chinese rating agency China Chengxin International Credit Rating Co., Ltd. (CCXI), Rating-Agentur Expert RA GmbH (RAEX-Europe), Pakistan rating agency JCR-VIS Credit Rating Co. Ltd. and the Bahraini Islamic International Rating Agency (IIRA). This alliance of rating agencies is intended to provide research and grading products along the Belt & Road. Such services can also be offered to clients from Iran.